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A

ROYAL COMMISSION  
ON  
CANADA'S ECONOMIC PROSPECTS

HEARINGS

HELD AT

TORONTO, ONT.

JANUARY 31, 1956

VOL. 28







TORONTO, Ontario,  
Tuesday, 31st January, 1956

APPEARANCES:

Mr. R. M. Sale, President,  
Ford Motor Company of Canada.

Mr. E. C. Row, President,  
Chrysler Corporation of Canada Ltd.

Mr. F. J. Hogan, Vice-President,  
Finance.

Mr. R. Todgham, Executive Assistant  
to President.

Mr. J. R. Lyons, Director of  
Forward Planning.

Mr. E. R. Mussleman, Tariff Counsel.

Mr. Allen Foran, Secretary.

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THE CHAIRMAN: Well, shall we come to order, gentlemen? The first item on the agenda this morning is a submission by Mr. Sale, the President of the Ford of Canada which we will mark Exhibit No. 155.

MR. SALE: Thank you, sir.

Mr. Chairman, and gentlemen, we in Ford of Canada welcomed the invitation of your chairman, Mr. Gordon, to appear before this Royal Commission on Canada's economic Prospects.

In recent months we have had many contacts with members of your special research staff. They have impressed us with their zeal and competence, and the thorough way in which they are studying the economic aspects of our industry. We are furnishing all the data they have requested, insofar as they are available





to us.

May I assure the Commission of our sincere desire to place at your disposal all the information upon which we base our projections for the future, and any special knowledge or opinion we may have that might assist you in appraising the part the automotive industry may play in the economic development of Canada over the next quarter-century.

Canada has grown so rapidly, and so much has been accomplished in the past ten years, that a national stock-taking by your Commission is highly appropriate at this time. Your hearings already have shed light on matters vital to the public interest and we believe your findings will be a valuable guide to public and private planners in ensuring that Canada's future expansion may continue along sound lines. Your objective analysis of the automotive industry, its problems and its prospects, will undoubtedly be an invaluable supplement to our own continuing research.

#### THE BACKGROUND OF FORD OF CANADA

Many of us in this room were born before the first automobile made its appearance in this country. Now there is a motor vehicle for every 4.2 persons in Canada.

Ford Motor Company of Canada, Limited was the first automobile company established in this country. It was founded in 1904 by a group of far-sighted Canadians, in collaboration with the late Henry Ford and his associates. It is still the only motor vehicle manufacturing company operating as a distinctively





Canadian corporate entity, offering an annual report to its shareholders and the public disclosing details of its finances and operations.

Ford of Canada is managed by Canadians. Five of the eight members of its board of directors are officers of the company engaged in full-time management capacities. Shares of the company are traded on the Toronto Stock Exchange, the Canadian Stock Exchange in Montreal, and the American Stock Exchange in New York. Ford Motor Company (U.S.) owns 28.7 per cent of our stock, made up of 55.4 per cent of the 70,000 "B" Class voting shares and 27.5 per cent of the 1,588,960 Class "A" non-voting shares issued.

Wholly-owned subsidiary companies of Ford of Canada operate in Australia, South Africa, New Zealand and Singapore.

Ford of Canada and its subsidiaries provide employment for more than 25,000 persons. At the end of 1955 there were 15,800 employees in Canada and more than 9,700 on the rolls of the subsidiaries overseas.

Since its inception in 1904, our company has produced in Canada a total of 3,210,000 passenger cars and trucks, or 41 percent of all motor vehicles produced in this country up to the end of 1955.

I have recited these facts in order to indicate to the Commission the position of our company in relation to the industry as a whole.





THE IMPACT OF THE MOTOR INDUSTRY ON THE CANADIAN ECONOMY

The importance of the automotive industry in the Canadian economy is well known to you, but perhaps not as well known to the public at large. This importance is thrown into bold relief by the estimate that one dollar in five of all retail spending in our country is related to the purchase or use of motor vehicles. In its manufacture, distribution, servicing and use, the motor vehicle provides more employment than any other commodity. As a means of transportation, it affords one of the main sinews of national development and prosperity.

The average person may think of the automobile industry as being concentrated mainly in Windsor, Oshawa, Oakville, Hamilton and Chatham, but these are only the centres of basic manufacturing and assembly. Through its network of hundreds of supplier plants and material sources, not to mention the thousands of selling and service outlets, the industry actually extends across the face of Canada.

Our company alone has more than 800 vendors throughout the country. In 1955 we bought from these suppliers more than \$141 millions worth of materials, components or services. Add to this the \$65 millions we paid to our 15,800 employees in wages and salaries, and the total sum of \$206 millions stands out as a sizeable factor in national purchasing power.

Ford of Canada produced in 1955 about 166,000 of the 452,000 cars and trucks turned out by the Canadian automotive industry, or roughly 37 percent.





Assuming that other manufacturers in Canada paid wages and salaries, and bought materials and components, on a proportionate scale, the vehicle producers alone injected more than a half-billion dollars directly into the economic life stream of Canada last year.

There are few Canadian communities that did not share somehow in the benefits, though they may not have been too aware of it. There were loggers in the Maritimes whose lumber went into shipping crates, miners in Northern Ontario who dug out the copper for radiators, textile weavers in Quebec who made upholstery fabrics, and countless other producers of raw materials or finished goods who owed some part of their livelihood, in the last analysis, to the people who bought Canadian-built cars or trucks.

The economic impact of the motor vehicle does not stop with those who benefit directly or indirectly from its manufacture. There are at least 60,000 employees of new car dealers engaged in selling or servicing cars and trucks, not to mention the much greater number employed by service stations, independent garages, used car dealers, tire shops, accessory stores, and other businesses which exist solely to provide goods or services to the motoring public.

Along our highways are countless places of business which owe their existence to the automobile -- the huge shopping centres, drive-in theatres, motels and hotels, restaurants, produce stands and souvenir stands. There are thousands of Canadians employed by truck operators, in the taxi business, or as drivers of





service vehicles.

THE ROLE OF MOTOR VEHICLES IN CANADA'S TRANSPORTATION  
SYSTEM

The motor vehicle not only creates commerce and employment, but plays a major role in the nation's transportation system. Highway truckers carry millions of tons of freight, much of it of a perishable or express nature, and there simply is no substitute for the truck in handling the even larger gross tonnages of goods moved in urban communities. The truck is invaluable to the farmer, and to the substantial number of Canadians in some 14,000 communities, not served by rail, which are wholly dependent upon motor transportation.

As carriers of human beings, motor vehicles far outstrip all other forms of transportation put together. The passenger car, of course, is the prime factor, but also important are the many thousands of motor buses. In 1951, the latest year for which figures are available, buses carried 367 million passengers.

The motor vehicle has given the people of Canada greater mobility than is enjoyed by any other nation on earth, except the United States. The automobile has given Canadian families freedom of travel. It has enabled urban dwellers to leave the congested cities for pleasant suburban living, as it has made it possible for the farmer to escape rural isolation when he chooses. The age of motor cars makes it possible for industry to set its new plants in open country, rather than in densely populated areas. This makes for better working and living conditions for the Canadian worker, who no





longer has to make his home within the shadow of his place of employment.

One of the largest employers of labour, the automobile industry has been a leader in improving working conditions, and in the use of new techniques and equipment which lower costs, increase productivity, and permit enhanced earnings and greater benefits for its employees. The mass production methods and advanced technologies of the automotive industry have had a pronounced influence upon virtually all types of manufacturing in Canada, with consequent benefit to consumers, employees, employers, and the national economy.

The automotive industry has created and will continue to provide a wide field of opportunity for young Canadians graduating from high schools and universities with a range of skills and abilities. Such opportunities in secondary industry are essential for keeping our youth at home and in building up our country.

#### THE AUTOMOBILE INDUSTRY AS A FACTOR OF NATIONAL SECURITY

There is another contribution of the automotive industry I would like to discuss briefly before passing on to the specific matters upon which I was asked to comment.

The industry is an economic asset of prime importance in peacetime, but in time of war its role is vital to the nation's security. During World War II Canadian manufacturers supplied about 800,000 vehicles, among them a substantial number of armored fighting units, to the Allied Armed Forces. Our company alone turned





out 376,000. Concurrently, the automobile plants were making aircraft parts, naval stores, machine guns, tank tracks, and many other needed items. The various companies supplied skilled men and abundant know-how to assist in many phases of the national war effort.

Canadians may rest assured that their automobile industry is strong, efficient, and always ready to do its full share in any national emergency.

#### THE SIZE OF THE CANADIAN MARKET FOR MOTOR VEHICLES

Mr. Gordon was kind enough to suggest a number of topics upon which our comment might be interesting and helpful to the Commission. These bear upon such things as costs, employment, technological progress, the inadequacy of highways, and potential markets, and because the size of market has a dominant influence on all the others, I propose to deal with this subject first. Mr. Gordon particularly requested comment upon the present and prospective differences in the size of the market for automobiles in Canada and the United States.

Population and income are the major factors governing the size of the market for motor vehicles in a country, although there are other variable factors such as productivity, pricing and policies on merchandising; the adequacy of road systems; governmental regulation, and even the influence of social patterns and customs. Basically, however, the size of market depends on how many people there are and how much they have to spend.

As one might expect, there are more motor





vehicles in the United States than in any other country, some 62 million. Americans own three of every four cars and trucks in the world.

The ratio of motor vehicles to population also is highest in the United States, with one vehicle to each 2.8 persons. At the other end of the scale in China, with one vehicle to 5,800 persons -- which conjures up the thought of a good-sized Canadian town in which only the mayor might have an automobile. Happily for Canadians, who have one motor vehicle for each 4.2 persons, our country ranks second only to the United States. There were about 3,755,000 cars and trucks registered for licenses in Canada at the end of 1955.

The economists can demonstrate a clear statistical relationship between the high ratio of motor vehicle ownership and the relatively high per capita income in the United States, as opposed to the lower ratio of vehicle ownership and the smaller per capita income in Canada. Certainly the proportionate number of motor vehicles in use in Canada has risen steadily with the improvement of personal income, and the gap between United States and Canadian vehicle-to-population ratios has narrowed.

We may reasonably assume that as Canada's income per capita moves closer to that of the United States, the ratio of motor vehicle ownership will follow the same trend.

It is doubtful, however, that the density of motor vehicle population in Canada will equal that of the United States for many years to come, because





there are fundamental differences between the two countries which affect the respective markets. One is a simple matter of geography and climate, the existence in the United States of certain heavily populated areas which are virtually winter-free and which offer a larger potential market for cars and trucks. There are differences, too, in national characteristics, and in social and political institutions. It must be recognized, also, that the costs of owning and operating an automobile are higher in Canada, while per capita income here is lower than in the United States.

FORD OF CANADA'S PROJECTIONS OF FUTURE MARKETS

Those of us in the automotive industry must always have an eye to the future, and our planning for production needs, plant expansion, distribution and merchandising policies, and other things is conditioned very largely by the careful forecasting of our economists and market analysts.

I now wish to give the Commission our projections for the next 25 years. These figures are founded upon our estimates of population and income, together with certain basic assumptions. The three principal assumptions are:

- (a) That social behavior patterns are slow to change;
- (b) That economic conditions will continue favourable, with no abnormal fluctuations; and
- (c) That no major international conflict develops.

Our projections indicate that the total



number of cars and trucks in use in Canada will grow from today's figure of 3,755,000 to about 9,200,000 by 1980; and that 25 years from now annual sales of cars and trucks in Canada will be more than double the 1955 total and closely approaching the million-a-year mark.

Here are our figures on the projected demand for automotive vehicles in Canada:

VEHICLE SALES

<u>5-year Averages</u>	<u>Cars</u>	<u>Trucks</u>	<u>Total</u>
1955 (Estimated)	375,000	75,000	450,000
1956 - 1960	384,000	90,000	474,000
1961 - 1965	439,000	115,000	554,000
1966 - 1970	550,000	140,000	690,000
1971 - 1975	675,000	159,000	834,000
1975 - 1980	785,000	171,000	956,000

VEHICLES IN USE

<u>Year</u>	<u>Cars</u>	<u>Trucks</u>	<u>Total</u>
1955 (Estimated)	2,870,000	885,000	3,755,000
1960	3,650,000	1,025,000	4,675,000
1965	4,400,000	1,090,000	5,590,000
1970	5,320,000	1,390,000	6,710,000
1975	6,360,000	1,590,000	7,950,000
1980	7,400,000	1,800,000	9,200,000

THE CHAIRMAN: Excuse me interrupting but I don't see your figure on the percentage of that market that you expect to obtain?

MR. SALE: Oh, 100 percent.

THE CHAIRMAN: I just wondered.





MR. SALE: These figures are indicative of the long-term trend line, as we in Ford of Canada project it. Projected sales are shown on a basis of five-year averages because sales from year to year can vary up or down without invalidating the long-term trend line.

The Commission may note only a relatively modest increase in the annual volume of new vehicle sales is forecast over the five years immediately ahead, averaging about 9,000 cars and 15,000 trucks per year. There may be in the period from 1956 to 1960 one or more years when total industry sales will go over a half-million vehicles. On the other hand, there may be years when the total sales may be less than the 1955 figure of 450,000.

You may note, too, the forecast of an accelerating rate of vehicle sales from 1960 onwards, and a consequent rapid multiplication of total vehicles in use in Canada. An important factor contributing to the rise will be that the bumper crop of babies born in the war years and immediately afterwards will be reaching maturity.

The projection of more than 9,200,000 vehicles in use in 1980 would mean that there would be one vehicle for each three persons in Canada, which compares with the current ratio of one vehicle to 4.2 Canadians and with the present United States ratio of one vehicle to 2.8 persons.

#### HOW COSTS OF AUTOMOTIVE PRODUCTION COMPARE

Mr. Gordon suggested that the Commission





would be especially interested in learning how our costs of production compare with those in the United States, and whether, in our view, these relative costs are likely to change in the future.

This is a difficult topic for us to discuss in specific terms, because to do so would require knowledge of United States costs to which we do not have access.

A general statement would be that it costs more to produce automobiles in Canada than in the United States, because the savings arising from volume production are greater in the U.S. than here.

As the Commission is aware, the automotive industry of Canada is in many respects a small-scale version of that in the United States. Each Canadian producing company has its much larger counterpart in the U.S.

In 1955 the combined production of passenger cars and trucks by the Canadian automotive industry was only five per cent of that in the United States -- about 450,000 vehicles against more than 9 million. The mass production economies of a 9 million output obviously dwarf those possible in the fractional volume of the Canadian industry.

There are other factors which have an adverse effect upon Canadian production costs. Automotive producers in this country pay more for coal, oil, steel in all its forms, and much of their machinery and equipment. Many of these things have to be imported.

It is sometimes suggested that some of our



higher costs are offset because labour rates in the Canadian automotive industry are lower than those in the United States industry. This, unfortunately, is not the case, because while the hourly wage rates of our employees are admittedly lower than those across the border, the total labour cost per vehicle is substantially higher.

This does not mean in any sense that the Canadian worker is less skilled, less industrious or less productive than his counterpart in the United States on the individual basis, but it does reflect the much higher productivity made possible by the vastly greater volume of output in the U.S. motor industry. With 20 times our annual production, the U.S. producers can afford machines, processes, and consequent manufacturing efficiencies that are beyond our reach. They also are able to use their indirect labour to much greater advantage because of their high volumes. While Canadian manufacturers try ceaselessly to whittle down their costs of product, only so much can be attained, in relationship to U.S. costs, while there remains such a huge difference between the relative volumes of output.

After the vehicle leaves the factory, the much larger size of the United States market still influences comparative costs. Distribution and selling costs per unit are higher in serving a widely scattered population of 16 million in Canada than in reaching the denser population of 167 million in the United States.





THE EFFECT OF TECHNOLOGICAL PROGRESS UPON COSTS

Mr. Gordon also asked if technological progress will confer the same cost advantages on Canadian producers as on Americans.

With qualifications, we believe we can give an affirmative answer. The principal qualification, of course, relates again to the larger size of the United States market and the greater volume of production.

The automotive industry from its beginnings has pioneered many technological developments, and has always been a leader in introducing new methods and equipment. To the degree they can afford it, the Canadian companies take part in the continuing search for ways and means to make better products at lower cost. Necessarily, however, they rely upon their affiliated companies in the United States for the basic research and engineering on major projects, and for product development, because these very large companies have resources that are far beyond our reach. Hundreds of millions of dollars are spent annually in the big research and experimental centres established and maintained by the major U.S. companies. One of the chief advantages of the close relationships between Canadian automotive companies and their American associates is their participation in the results of U.S. research. The people of Canada thus share in the benefits of research that would be flatly prohibitive in cost if the Canadian companies had to undertake it on their own.

Technological advances have been readily available to Canadian motor companies, and we may





reasonably assume they will continue to be in the future. I should qualify this statement to the extent that new methods or machinery suitable to the mass production of the United States may not always be suitable to the smaller requirement here, or may not yield the full cost advantages when operated on our smaller scale. It would be true to say that we expect to share proportionately in future technological progress, and indeed to a growing extent as the Canadian market enlarges.

#### THE EFFECTS OF TECHNOLOGICAL PROGRESS UPON EMPLOYMENT

Mr. Gordon asked what possible effect technological progress may have upon employment.

A great deal is heard these days about a new word "automation", and about the so-called "push-button factories". There seems to be a widely publicized notion that continuing technological advances will cause widespread unemployment, but this does not stand up under close scrutiny.

Many years ago, the introduction of mass production techniques -- which I suppose would be described as "automation" in today's terminology -- made it possible to reduce production costs and to bring prices to a level at which almost everyone could afford to buy. Certainly the automobile still would be far beyond the reach of the vast majority of people if it were being built today with the methods and equipment of 50 years ago. The automobile industry as we know it would never have developed, had it not been for technological progress.

There is a great deal of misconception



about automation. We are proud of the great forward steps that have been made by the automotive industry, aided by the independent tool engineers of North America, towards the adoption of more modern machines and more modern methods of handling materials mechanically. We are, however, a long way from the stage at which the push-button will run the automobile factory.

In Ford Motor Company in the United States, where the word "automation" was coined, less than five percent of the 136,000 hourly-rated employees are currently working on automated jobs. In those areas which lend themselves best to the techniques of automation -- the foundries and engine plants -- the number of employees actually has increased, and those men on automated operations have much easier work than before.

If automation is taken in the broad meaning of "mechanization" there really is not much new about it. Farmers, for example, have employed mechanization on an increasing scale for a century past. A high degree of automation has been common in the refining of oil, the milling of flour, the processing of food, the making of chemicals, and in scores of other fields of industry. In fact, the automobile industry will never have anything remotely comparable to the degree of automation found in such industries as I have mentioned. This kind of automation does not lend itself to most of our operations, and our product is subject to too frequent change to justify extensive automation.

There will, however, be steady technological advances in industry and the producers of





automobiles will make use of every available technique or device that will assist in keeping costs down, improving quality, and providing expanded markets and consequent enlarged opportunities for employment. The benefits from increased productivity will, as they have in the past, be shared all along the line -- by customers, by employees, and by shareholders.

We believe there will be a re-distribution and up-grading of jobs as greater skills are required in the new processes. There will be an increasing premium upon educated workers with trained hands and minds.

There will be increased employment in the automotive industry as our markets grow over the next quarter-century, but not in ratio to the mounting production levels because of the improving productivity resulting from more skilled workers and more efficient machines. However, a very important employment factor stemming from the much greater production will be the multitude of new job opportunities in those thousands of businesses selling and servicing new vehicles and in the thousands of related businesses serving the motoring public.

#### EFFECTS OF CANADIAN CONTENT LEGISLATION

The next subject on which Mr. Gordon asked for comment is: "What are the effects of Canadian content legislation?".

The reference is to a change made in the tariff in 1936, granting Canadian car and truck manufacturers the compensatory right to certain duty-free imports when the tariff on finished automobiles from the





United States was reduced to 17.5 per cent.

Under Item 438(c) in the tariff schedule, the manufacturers are permitted to import, duty-free, specified components of a class or kind not made in Canada, provided that a specified percentage of the cost of the finished vehicle represents material or labour of Canadian (British Commonwealth) origin. The required percentage is graduated in accordance with the productive capacity of the manufacturer.

In the years since this legislation was enacted, it has proved beneficial in holding down the landed costs of components not made in Canada. The legislation also has helped in the development of the Canadian parts industry, which has become a large and important segment of the economy.

Canadian content regulations have assisted in the development and maintenance of export markets in the British Commonwealth, because of the tariff concessions extended on vehicles meeting the content requirements.

It is our belief that the content legislation has been, and continues to be, of benefit to the automotive industry and to the national economy.

#### HOW THE MOTOR INDUSTRY CONTRIBUTES TO THE TRAINING OF SKILLED PERSONNEL

Your chairman asked for comment upon the contribution of the automotive industry towards encouraging the training of skilled personnel in Canada.

This, of course, is a field in which we have a keen and active interest. Industry generally, and



perhaps we in the automobile business particularly, have been acutely aware of the shortage of thoroughly trained personnel over the past 10 or 15 years. We look upon this shortage as one of the most serious obstacles in the path of Canada's progress.

The lack of people with education, with special knowledge and special skills in a wide variety of fields, will become more and more pronounced as our country develops over the next few years. There is an urgent need, we think, for constructive action on a national scale to increase the output of our universities, colleges, high schools, trade and vocational schools, and specialized training institutes.

Canadians must not only demand, but be willing to finance out of taxes and in other ways, an immediate and costly enlargement of our current facilities for education. There must be more adequate buildings, better facilities, and much larger and better paid teaching staffs. At the same time, young men and women must be given greater encouragement to prepare themselves, by training and education, for high responsibilities and more effective careers.

Ways and means must be found to ensure the highest standards of quality in the output of our educational system, for mere quantity without quality does not answer the need.

We in industry and business must accept responsibility for more intensive and effective programmes of training within our own organizations. Much has been done and is being done in this direction,





but we must increase our efforts.

In this respect, I would like to tell the Commission of some of the things being done by Ford of Canada in an effort to offset the shortage of competent people for our expanding operations. We are constantly engaged in a wide variety of in-plant training programmes which are carried on without cost to the employees or to the taxpayers. The number of persons who have taken advantage of these training courses, with benefit to themselves and to the company, is considered full justification for the expense involved. We would be doing even more if it were possible for us to find enough of the type of training leaders we require, people with special aptitudes and training to impart knowledge to others.

An institution of which we are particularly proud is the Ford Trade School operated by our company at Windsor. This unique school was set up in 1937, primarily to help fill a desperate need in Canadian industry for skilled toolmakers. As such, it was a vital national asset when World War II came along. In recent years the curriculum of the school has been broadened to give the students a more comprehensive industrial training.

Students are chosen by competitive examination from among the brightest students in high schools across Canada. They receive four years of training which is provided wholly without cost to the student, and, as a matter of fact, each student receives pay and benefits over the four year term,



amounting to more than \$11,000.

After graduation, the students are under no obligation to seek permanent employment with Ford of Canada, but I am glad to say the majority have done so and the record of their progress with us has been most gratifying.

The Trade School is a symbol of Ford of Canada's recognition that the supply of trained personnel for industry should not be solely the responsibility of the state, and the same is true of our other internal training programmes. This thinking extends as well to our far-flung operations throughout the Commonwealth countries, for we are constantly bringing promising young men from overseas to Canada, and sending some of our personnel to the companies abroad, to enrich their experience and add to their education.

For some years past our company has recruited outstanding young men from the graduating classes of our universities, as well as promising candidates from within our company, for intensive executive training courses which extend over the period of a year. Again, these young men are not obliged to stay with us when their training is complete, although many have done so and we are seeing excellent results.

Finally, I should like to say that our company is conscious of its responsibilities in the general field of learning, particularly in higher education, and provides scholarships to help certain





deserving young people to further their education at the university level.

THE INADEQUACY OF CANADA'S ROAD SYSTEM

The last topic suggested by Mr. Gordon was: "Comment on the growing inadequacy of roads and highways, and the implication this may have on car and truck sales."

We have the strongest views on this topic, not for any fears we may have as to the potential effect of inadequate roads upon motor vehicle sales, but because we are appalled by the sheer economic cost of a national highway system that is years behind the times. Millions upon millions of dollars are being wasted annually as a result of traffic congestion, bad roads, limited parking space, and other faults in the system, to say nothing of a toll of human life and limb that can be attributed directly and indirectly to road conditions or ineffective traffic control.

Statistics often serve only to obscure the real meaning of the term "inadequacy" as applied to roads. To add up the total mileage of all surfaced roads and say there are so many miles per capita or per motor vehicle, does not illuminate the real problems of inadequacy, such as the congestion on certain trunk highways or the bottlenecks in urban areas.

For example, in 1944 there were 127,000 miles of surfaced highways in Canada, equal to one mile per 11.8 vehicles. In 1953 there were 191,000 miles, or one mile per 18 vehicles. The increase in total mileage would seem encouraging, but the ratio of



mileage to vehicles in use reveals a losing battle.

The mileage statistics, as a matter of fact, are deceptive. The figure of 191,000 miles of surfaced road in 1953 does not tell that only 31,000 miles had paved or bituminous top and that the remaining mileage was wholly of gravelled road, some of it of indifferent quality. The total takes in not only the heavily travelled trunk highways, but thousands of miles of relatively lonely country road, and the ratio of mileages to vehicles does not reflect the acute congestion on inter-city links and in the metropolitan and urban areas where vehicle density is the greatest.

If we stay within generalities, it may be said that the number of miles of new first-class pavement constructed each year has lagged far behind the growth in the number of vehicles in use, the number of miles travelled, and the expanding gross national product.

There is no suggestion that the blame for inadequate roads should be placed upon any government, federal, provincial or municipal. Part of the reason lies in the five or six years of progress in highway construction that were lost as a result of World War II. Part is undoubtedly attributable to the tardiness of governments and the public alike in realizing the true pace of Canada's economic growth and the fact that the road system was falling far behind the nation's need.

Canadians now have no excuse for holding back in providing themselves with a better road system.





The need is painfully apparent, and every projection of future requirements your Commission may adduce from its study will demonstrate conclusively that more adequate roads are vital to continued national progress.

A suitable highway and road construction policy will entail long-term planning for proper integration of the inter-related needs of the country as a whole, and for its separate regions. Road supply and demand cannot be neatly separated. There is a "chicken and egg" relationship -- traffic flows will create demand for better highways but, equally true, good highways stimulate new or altered traffic flows.

The most compelling need, as we see it, is for swift correction of traffic congestion on key highways and in urban centres across Canada. Congestion imposes tremendous unnecessary costs upon the public. The crawl speed of trucks and passenger cars caused by unsuitable roads, narrow bridges, dangerous curves, steep hills, level crossings and countless other impediments, results in a fantastic wastage of man-hours, of gasoline, and of investment in vehicles.

It undoubtedly is true that the inadequacy of roads and highways does have some effect upon the sales of cars and trucks. We have no way to determine how severe this effect may be, but we are particularly aware of it in major centres of population, such as Toronto and Montréal, in which congestion of main routes, downtown bottlenecks, and a scarcity of parking space are critical problems.



We believe, too, that the volume of freight and passengers handled by motor carriers would be greatly increased, with benefit to the entire economy, if the highway system were geared to present day needs. An increase in such volumes would, of course, reflect in greater sales of vehicles by our industry.

The effect of inadequate roads on motor vehicle sales is by no means a major consideration in the broad and constructive view of the problem. The nation simply cannot afford the continuance of the cost penalties of an antique road system, nor can it tolerate a complacent attitude towards such things as congestion, parking, and safety.

#### CONTRIBUTION OF AUTOMOTIVE INDUSTRY TO EXPORT TRADE

This concludes our remarks on the several questions raised in Mr. Gordon's letter of invitation, but there are some additional comments on matters affecting the industry upon which I would like to comment.

Reference should be made, we think, to the contribution of the automotive industry to Canada's export trade. In recent years the export of automotive vehicles has represented only a fraction of the pre-war volumes, mainly because of import restrictions and exchange difficulties in overseas territories. Canadian exporters also have had to contend with increased competition abroad. The drive for export sales by British and European companies, which have much higher volumes of production and substantially lower labour costs than are typical in Canada, has meant a continuous struggle on our part to overcome the cost disadvantages of our





vehicles.

Ford of Canada began the cultivation of overseas markets almost from its inception, and for 50 years has been the principal Canadian exporter of automotive products. It was not uncommon in pre-war years for export shipments to account for as much as 45 per cent of the output of our company's plants in Canada. However, as a result of the shrinkage in overseas markets and the concurrent market expansion in Canada, the proportion of our Canadian production exported has declined from 41 per cent in 1938 to 10 per cent in 1955. Incidentally, the volume of our exports in 1955 was somewhat greater than it had been in recent years.

Notwithstanding the proportionate decline, the exports have had a substantial value and have continued to provide foreign exchange to assist the nation in balancing its external accounts, and to furnish additional employment for Canadians. The exports of Ford of Canada also create traffic for Canadian Railways and harbours for, as far as is practicable, the company uses Canadian carriers and port facilities.

Through direct dealers scattered over half the world, and through the dealers of its overseas subsidiaries in Australia, South Africa, New Zealand and Singapore, the products of Ford of Canada flow to scores of markets, large and small. In addition to the Commonwealth countries mentioned, we ship to such places as the Rhodesias, Kenya, Nigeria, Tanganyika, Gold Coast, Madagascar, Thailand, Indonesia, Samoa, and the Fiji



Islands, to mention only a few.

Ours is the only Canadian automotive company which continuously and vigorously develops export business, and we will continue to do so. However, the pattern of overseas business has changed in recent years. In some major markets, such as Australia, there is a rapid trend towards local manufacture. A much higher proportion of the content of North American type vehicles available in Australia is being produced in that country and ultimately almost all of the components will be made there.

In order that we may offset the diminishing demand for vehicles and components in some of our former major markets, we are increasing our efforts to enlarge the demand from other territories.

The Canadian exporter already is hard-pressed in many overseas markets by the alert and vigorous competition of the British and European producers, who have important advantages over us because of their higher volumes, lower labour costs, and sometimes in respect of currency controls. If Canada is to continue to participate successfully in overseas trade in our field, there must be constant and realistic effort on the part of labour, management and government to keep Canadian costs competitive.

#### INFLUENCE OF TAXATION ON MOTOR VEHICLE SALES

The Commission has shown its interest in factors that affect the production and sale of motor vehicles, and an important one that should not be overlooked is the influence of burdensome taxes imposed upon





the Canadian vehicle owner and user.

Canadian manufacturers have appealed to Ottawa annually for the elimination or alleviation of the special burden of taxation imposed in the form of an excise tax of ten per cent on new passenger cars. The automobile is the only major means of passenger transportation singled out for such a tax, and for that matter the only essential commodity still subject to excise tax.

We contend that this tax is a lingering inheritance from the distant past when the automobile was looked upon as a pure luxury, and we have offered proof to the government on many occasions that the passenger car is as essential to modern living as a bed, a stove, or a pair of shoes.

In our view, the automobile owner and user is the target for a disproportionate load of taxation in many forms. He pays an excise tax of 10 per cent plus a sales tax of 10 per cent on his new car, and in some provinces also pays provincial or local taxes as well. There are further sales taxes on repair parts, accessories, gasoline and oil, not to mention the specific and heavy gasoline taxes. In addition, there are annual license fees on the car and permit fees on the owner.

It is our hope that the Commission will take note of the tax burden which falls with such severity upon one of the essential parts of Canada's transportation system.



THE AUTOMOBILE TWENTY-FIVE YEARS FROM NOW

There is but one other subject on which I would like to touch briefly before closing, and that is the nature of the product of the automotive industry itself.

In this age of super science and startling inventive and technical achievement, it is not uncommon to hear someone say: "Why, 25 years from now there will be no such thing as an automobile. Everyone will have a helicopter to get around town and a family airplane for long trips."

I do not believe any such thing. I am confident that 25 years from now, automobiles will be an even more vital part of transportation than they are today.

The evolution of motor cars is so taken for granted, year by year, that one rarely stops to think that the common-place 1956 models are what people 25 years ago were talking about as "dream cars". Consider the changes that have come about in only the past six or seven years. Cars have become lower, wider, roomier and more comfortable. They have been made safer in scores of ways, with better steering, better brakes, sturdier construction, vastly greater visibility for the driver on all four sides, and a number of recent innovations for the protection of the driver and passengers. Engines have been vastly improved in performance and relative economy.

Such things as automatic transmission, power steering and power brakes have moved from the





novelty stage to be commonplace in a matter of a few years, and already are well on the way to becoming standard equipment. Almost every new car in this country is equipped for warmth and fresh air, and for those who want them there are installations available for practically all cars permitting total temperature control of the interior. Windows go up and down, seats shift to suit the comfort of the driver, streams of water wash the windshield, radio antennas go up and down -- all at the touch of a button. A very high percentage of new cars have radios. Some owners even have telephones and dictating machines in their automobiles.

The "dream cars" of 25 years ago are here today and I am sure they far surpass the rosiest expectations we had back in the 1930's. What the next quarter-century will bring in automotive development, I would hesitate to predict. There is absolute certainty, however, that the evolution of the automobile will be more rapid than in the past, because of the vastly greater programmes of research and experimentation and the keen competition among producers.

I can forecast with complete confidence that although there may be some startling transformations, the vehicle of 1980 still will be an automobile in the basic sense of having wheels, a body, and a means of propulsion. Change notwithstanding, the automobile will have an increasing role in the movement of people and goods over the years to come, and the industry which produces automobiles will continue to have a



major part in the Canadian economy far into the future.

I thank you, Mr. Chairman and Gentlemen, for this opportunity to convey our views on the future of the industry and of our company.

May I take the opportunity, too, to express a sentiment in which the vast majority of thinking Canadians will concur -- a warm word of thanks to all members of the Commission and of your staff who are making such an invaluable contribution to the national good. We are well aware of the sacrifices you are making in devoting your time and talents for at least a year to the study of Canada's resources and the prospects for our country's future. I am sure your efforts are most appreciated, and that the ~~results~~ will be eminently worth while.

THE CHAIRMAN: Thank you very much, Mr. Sale. This is a very thoughtful and valuable submission and we are extremely grateful to you. I would also like to say how grateful we are to Mr. Row and Mr. Wecker, your officials and to Mr. Armour representing the Parts Manufacturers and also to the Unions for the help which all of you have been to the economics staff of the Sun Life who are preparing this study on your very important industry for the Commission. Quite obviously such a study requires the kind of co-operation that we are getting from the industry and we are most grateful to you all for it.

There are one or two questions that





I would like to ask. Some of us here including you and Mr. Armour and Mr. Peterson and one or two others spent the greater part of a year about 20 years ago with the Tariff Board when they were looking into the tariff structure for this industry. At that time, as I remember, the difference between the costs of manufacture of a Canadian and an American car in the higher volume lines was, as I remember it -- and I have not looked it up -- close to 25 percent. I know that you are not in a position to give exact comparisons of United States - Canadian costs now but on the basis of wholesale and factory selling prices is it reasonable to think that that difference of close to 25 percent in costs has narrowed somewhat in the 20 year period?

MR. SALE: Oh, yes. As a matter of fact, the figure, I think, at that time for one of our most popular models then was about 22.9 percent and that has been pretty consistently reduced since then. Of course, the volume is almost the whole answer. In 1935 we produced for the automobile market in passenger cars about 33,000 as compared with 133,000 in 1955. The benefits of volume are great. If we can get you gentlemen to buy two cars while we are here it will help the whole picture.

THE CHAIRMAN: Would the differential have been reduced to as low as (I don't want to be exact at all) but if it was 22.9 percent would it be down to 15 or 16 percent?

MR. SALE: Yes.



THE CHAIRMAN: It is about half?

MR. SALE: Yes.

THE CHAIRMAN: Well, that is a tremendous change.

MR. SALE: Yes, it is. Now, that will vary from year to year according to conditions.

THE CHAIRMAN: And from company to company I suppose?

MR. SALE: Yes, and with volume at the present time -- with peak volume we are in more or less ideal position.

THE CHAIRMAN: Do you put that important advantage mainly and substantially to the increased volume of manufacture you are getting now?

MR. SALE: Very largely. The benefit comes from, of course, the reduction in the overhead cost.

THE CHAIRMAN: When it comes to a comparison of retail prices, of course, the substantially higher sales and excise taxes in Canada to which you have referred would account for a big part of the difference, I suppose?

MR. SALE: That is right.

THE CHAIRMAN: Now, Mr. Sale, in referring to the Canadian content legislation which is an unusual feature of the tariff in Canada, I suppose you tell us that you are in favour of it?

MR. SALE: That is right.

THE CHAIRMAN: A view which I understand is not necessarily shared by all the manufacturers.





What is the percentage of Canadian or British content that is required now?

MR. SALE: 60 percent. That is for us. It is lower for the manufacturers who produce lower volume.

THE CHAIRMAN: I suppose some of the companies obtain a much higher percentage than 60 percent?

MR. SALE: Yes, we do.

THE CHAIRMAN: Well, in that connection we have heard a little bit from the steel companies and the car companies about the additional components that some think may be produced in Canada. Would you like to say a word or two about the prospects for producing frames or stampings or automatic transmissions in this country?

MR. SALE: Well, that would be the three main items. As far as frames are concerned, the indications are that they are going to pass out of the picture as the industry appears to be definitely slanted towards the unitized body. That would leave only truck production and with a much lower volume of trucks and the wide variation in frames, practically one for each model, and variations of different capacities, I don't foresee a frame manufacturer in this country for a long time to come. So far as body panels are concerned, I think with the unitized body there may be ---

THE CHAIRMAN: Would you like to explain the unitized body?



MR. SALE: The unitized body is where the body and chassis are welded together into one piece without a frame. I imagine with the number of weldings involved in that body many of these small stampings may be and will be made in Canada. The larger parts, your roof panel and hood are going to depend very largely on volume. The dies, as you know, are extremely costly and at what point we will reach that economic position is awfully difficult to determine. It certainly will take on a different aspect 25 years from now but whether we will have enough volume in Canada against nine million or ten million in the United States is not foreseeable.

As far as automatic transmissions are concerned, they are very definitely in a state of evolution at this time. The design is not standardized. There are definite changes just around the corner and many others under development and consideration and for my money it would be most unwise certainly for my company to consider the manufacture of automatic transmissions at this particular time. We are hopeful that within two to three years perhaps that design will be stabilized. The cost of going into the automatic transmission is a terrific one, something like \$25 million in automatic transmission plant and equipment and again just in rough terms we would need a volume of somewhere between 400 and 500 per day and a steady running of perhaps several orders to ensure getting a return on the investment.

THE CHAIRMAN: Thank you very much. In





discussing your export business you mentioned something we heard a good deal about in the Maritimes when you said that your company used Canadian carriers and Canadian port facilities so far as is practicable. Would you like to expand on that a little bit and tell us the extent to which you have been able to use Canadian port facilities and what the factors are?

MR. SALE: Our policy for some years has been to use Canadian port facilities wherever we possibly can. You appreciate with assembly plants operating overseas which must be fed regularly, that frequencies of sales, regularity of sailings is a very important thing. Freight costs are also important. However, we have been working with the National Harbour Commissioners and very closely with the shipping companies involved. As a matter of fact, we have retained outside consultants to give us advice as to how we can further improve the use of Canadian ports. In 1952 we were shipping 35 percent of our tonnage out of Canadian ports. By 1955 we had improved that to 60 percent. We expect to make other improvements but there are many things to be explored. These, we hope, will be beneficial.

I might also point out that we also use Canadian ports on inbound goods, that is, on the import of English cars which we sell in the order of probably four to five thousand a year plus about two thousand tractors.

I am hopeful and I think I can be optimistic



in saying that we can go even higher than 60 percent. That represents 2,000 tons of freight a year. It is not great. We wish it were greater.

MR. STEWART: I am particularly interested in your section on the training of skilled personnel for obvious reasons, Mr. Sale. I think we are all concerned about this problem of providing the kind of people necessary for the more complicated processes of industry. Historically the preparation in particular skills was acquired through apprenticeship but it does seem over a time we have been trying to pass that over to the public educational institutions and we are teaching courses in schools and educational institutions in increasing numbers in the technologies in universities and so on?

MR. SALE: Yes.

MR. STEWART: What I am wondering is first of all whether there is any possibility (you must have given, I know, a good deal of thought to this) of some co-operative arrangement between industry and the educational institutions. I would think that the educational institutions could not do too good a job on the particular skills which a particular industry will require, but at the same time, in your training programme in industry you do not want to expand out into other more general things that could perhaps better be done in formal educational institutions. That thinking suggests some kind of co-operative in training in service programmes which use both facilities of industry and those of the educational institutions.





Have you any thoughts on that possibility?

MR. SALE: Well, I have some thoughts, Dr. Stewart, but I don't know whether they are sufficiently crystallized at this point to be of any benefit to you. I think there are really three things. One is the field in which universities work, another is the field in which industry must work and I think myself industry has got to very considerably expand its development of people for use in its own plants.

I think there are certain areas, though, where the university and industry can work closely together. I am thinking of that field of highly skilled technicians which are going to be so vital to the country's progress which might be one step below the university professional graduate. We have a study which has just been completed for us by Dean Larkin of the Engineering course here in Toronto and I think that discussion will bring forth some of those ideas. My own mind is not quite crystallized to a point where I can be of any great help to you at this point.

MR. STEWART: I share the same thought but if you have developed something I will be glad to hear of it.

MR. SALE: As a matter of fact, we will be glad to let you have this study a little later after we have had our discussions and give you whatever benefits we can get from it.

MR. GUSHUE: Mr. Sale, on page 27 of your brief you give comparative figures, vehicles and mileages and so on throughout Canada. Are you able to



compare these with the United States figures? Have you got that by any chance?

MR. SALE: No, I have not. I will get them for you, though.

MR. GUSHUE: It would be very interesting.

MR. GRAUER: The statement at the bottom of page 7, Mr. Sale, is an interesting report on the mass production methods and advanced technologies of the automotive industry which have had a pronounced influence on virtually all types of manufacturing in Canada. Now, there are certain things that spring readily to mind, the various examples of mass production techniques and demand of the automotive industry upon other industries which will allow them to go in for more mass production techniques but I was wondering if there were any particular aspects outside of those that you had in mind in making that statement?

MR. SALE: No.

MR. GRAUER: It was just a general result?

MR. SALE: It was just the general result of mass production techniques.

THE CHAIRMAN: Well, thank you, Mr. Sale. This has been a very interesting presentation and we are very grateful to you.

If you are willing, Mr. Row, we might have a five minute break before we start in with you.

MR. ROW: Right.

--- Recess

--- After recess

THE CHAIRMAN: Well, shall we come to





order, gentlemen? Mr. Row, in welcoming you to this Commission I would just like to say again what I said to Mr. Sale that we are all most grateful to all of you for the help you have been to the research people who are making a study of your very important industry and we are also grateful to you for coming here and being willing to give us the benefit of your views on the various questions. We will mark your submission Exhibit 156 and if you would like to start in and present it, all right.

MR. ROW: Mr. Chairman and other members of the Commission, I am quite confident I work a whole lot harder than Mr. Sale and therefore I will read mine sitting down.

THE CHAIRMAN: Oh, we will ask you what share of the market you are going to get.

MR. ROW: Mr. Chairman and Gentlemen, your invitation to appear before this important Commission is much appreciated. In addition, I welcome the opportunity to express my views on the part which the automobile industry will play in Canada's economic future, which it is your substantial task to study.

It is taken for granted that you gentlemen are aware of the importance of the Canadian automobile industry in the overall economy of this great country. This has been emphasized by those who have preceded me this morning.

As an individual, I am proud to be associated with an industry that has been in the forefront



of the dynamic progress of this young country to date, and which is preparing itself to play an equally important part in the future growth of the Canadian economy.

The company with which I am associated, Chrysler Corporation of Canada, Limited, since its formation 30 years ago, has been an important factor in the automotive industry of Canada. In addition to the many millions invested during those years, we have invested since 1953 a further 54 millions of dollars in plant and equipment to prepare ourselves for the role which we propose to play in the further expansion of the country.

In recent years our company has been devoting increasing attention to the forward planning concept. Our experience has demonstrated that intelligent forward planning represents the key to our future progress. Similarly, we feel that a country, like a business enterprise, stands to benefit from a periodic examination of its position and a careful hard look into the future. In this respect your Commission is filling a most useful role and will make a substantial contribution to Canada's economic welfare. Not the least of this contribution will be the impetus which your activities will give to industry as a whole to develop and implement their own forward planning programmes.

In 1924 the founder of our company, Mr. Walter P. Chrysler, demonstrated his confidence in the future of Canada by an investment here of his





Company's capital and his experience. Along with other far-sighted men of those times he helped to develop a company that has grown from a domestic production of 2,349 automobiles in that year to some 98,000 automobiles in the year just ended. The knowledge and the experience of Mr. Chrysler and the men associated with him in those days have been passed on to a succeeding generation of Canadians until today Chrysler of Canada is one of the largest industries in this country with a working force of approximately 12,000 persons. The company today is almost completely manned and managed by Canadians.

It would be appropriate, Mr. Chairman, if I were to take a moment to remark upon the opportunity which our company affords for Canadians to progress to positions of high executive responsibility. During the past year we made 41 appointments to various important positions within our managerial group. Of these 41 appointments, only one -- and that in a highly specialized field -- involved a United States citizen. The remainder were persons of Canadian or British birth. Our operating committee, the group which largely determines how the company will be run, consists of 13 men. Of these, 10 are Canadian by birth. In a relatively few years it is quite conceivable that the Canadian content of this committee could be 100 percent. Our management policies are pointed in that direction.

Your letter of invitation asked for my views as to how the costs of production of Chrysler of Canada compare with those of the United States.



It is common knowledge, I think, that prices paid by consumers for new cars (including taxes and freight charges) are substantially higher in Canada than in the United States. The reasons for this difference are closely linked to this country's economic development and laws. Wide disparities between Canadian and United States prices may also be attributed, in part, to the geography of the two countries.

However, it is my view that these disparities reflect the result of the forces of taxes and tariffs which were designed to foster the industrial development of Canada, but which nevertheless, must work within a framework of the basic economic laws of supply and demand.

As has been pointed out in some of the briefs previously submitted to this Commission, the higher costs of producing, distributing and selling automobiles and trucks in Canada (as compared with the United States) similarly can be attributed to the smaller size of the Canadian market, to differences in taxation and to geographic and climatic conditions.

While it is recognized that the quality of labour in Canada is at least equal to that in the United States, the apparent benefit to the manufacturer of lower rates is more than offset by the more efficient production which accompanies the much larger scale enterprise.

In addition, seasonal fluctuations in the Canadian industry are more severe than in the United States. This fact, in the past, has led to some spreading





of work over a longer period during the year than might, strictly speaking, be economical.

The volume of production of the Canadian industry is about five percent of the volume of production in the United States. This means that Canadian suppliers of parts and materials cannot afford to tool up to the same costly extent as their United States counterparts, having in mind the smaller output that will be expected of them. Production of parts in the United States is done by means of larger machines which, though requiring a heavier fixed investment, are very economical in mass production. These machines must be fully utilized over a very large number of units to be economical at all.

The larger market which exists in the United States also makes it possible for manufacturers supplying the industry to specialize their activities to an extent greater than is possible in Canada. These firms are thus enabled to maintain their costs and prices below the Canadian levels. In addition, the larger United States market encourages suppliers to locate their facilities more advantageously for the automobile companies and in that way to reduce costs of transportation of parts and materials.

These advantages enjoyed by the United States motor vehicle producer go far towards explaining the difference in prices between this country and the U.S.A. Once again, they stem in large part from the size of the market in Canada. This factor will diminish as the Canadian market grows, as I am certain that it will.



To have an industry in Canada which can produce at costs comparable to those prevailing in the United States we must, above all, expand our market. This expansion can occur in two directions: one, by an increased sale of vehicles in Canada; and two, by shipping more of our Canadian production abroad. Both of these possibilities offer very substantial promise of realization.

The same considerations which arise from the size of the market have a bearing on the cost and productivity of the equipment used by the Canadian automobile company. Equipment which is purchased in Canada tends to be higher in price because of the smallness of the market which exists for such equipment in this country.

The fact that Canadians are fewer in number and more widely scattered than is the case with their neighbours tends to increase freight costs in this country. It is not feasible to reduce the transportation cost of finished cars by the establishment of assembly plants in distant markets, as is done extensively in the United States. The reason, again, is the comparative smallness of the market at this time.

In Canada, completed cars must be shipped long distances, principally by rail freight. In the U.S., cars are shipped by the most economical means, in many cases from nearby assembly plants. These factors explain some of the differential in actual prices paid by the customer as between outlying Canadian markets and correspondingly distant ones in the United States.





The Canadian railways have not seen fit -- unlike their United States counterparts -- to introduce on their own (without added expense to the manufacturer) modern means of loading automobiles in box cars.

Canadian automobile manufacturers, therefore, have been faced with a substantial cost for every automobile which is loaded into a box car. This cost is, of course, reflected in automobile prices and must ultimately be borne by the Canadian purchaser.

This specialized rail equipment used almost exclusively in the United States is so designed as to permit the use of the box car for return shipments of other commodities.

Our Corporation is fostering the introduction in Canada of the use of specially constructed auto carrying ships for the large scale movement of automobiles by water from Windsor to the Lakehead. Use of these ships will mean substantial freight savings in shipments of automobiles to Western Canada.

With the opening of the St. Lawrence Deep Seaway, it is anticipated that the use of similar ships will also mean corresponding savings in freight costs for purchasers of automobiles in Eastern Canada, including Newfoundland.

Dealers' distribution costs are also higher in Canada. The Canadian dealer, on the average, has a lower volume of vehicles upon which he can amortize his fixed expenses. These include the preparation which he must do on the cars which he sells, his expenses for salesmen, advertising, staff and



equipment. Once again, it is a case of fixed costs and a smaller number of units to carry the burden of these costs. The result is higher cost per unit handled.

In Canada we must have a larger market before we can organize our operations on a broader scale. For example, in general United States manufacturers produce only one make of car in a plant. Here, our volume is not sufficient to permit that. At Chrysler of Canada we now build all four lines of our cars (Plymouth, Dodge, DeSoto, Chrysler) on the same assembly line. When you consider that each car line has from one to three models and each model may have up to five body types, you will appreciate how the disadvantage of not being able to specialize is multiplied.

The wide variety of body models which is demanded by the Canadian consumer means that we must spend more for labour man hours in the parts handling of materials, and for time lost in changing from one operation on one body model to another operation on a different body model, and so on. While we have the most modern and efficient equipment in our plant, we can do more to cut costs when our market and our volume are expanded.

Another point is that the new machine tools now being introduced consist more and more of large technical units. These great machines must be fully utilized to be economical. When fully utilized, they are much more economical than other methods of production. These highly technical units for the most





part cannot be reduced into smaller versions to meet the lower Canadian volume, and therefore the Canadian companies must employ a less economical and higher-cost combination of man hours and capital than do their United States counterparts.

Technological improvement has already been described as a vital factor in reducing costs and increasing productivity. It has been given a great deal of publicity lately, although in fact it is nothing more than a progression in a trend toward machines which began with the industrial revolution several centuries ago. Far from destroying jobs, new and more jobs are created, representing an upgrade to tasks more worthy of human judgment and skills.

To use the nation's manpower to best advantage in the future, it is important that the need for trained workers be recognized by government, industry and labour. This can be done by promoting and fostering educational programmes that will keep Canada supplied with the trained personnel which the country's growth requires.

With an increasing population, sharpened competition and a constant striving for a better standard of living, the need for technological improvement is obvious.

In connection with the use of large and costly car and truck parts, an important factor in keeping down the cost and price margin between United States and Canadian production is the permission which the tariff legislation affords the Canadian manufacturer



to import items not made in this country. Most important of these are major body stampings.

The tariff legislation which was introduced in Canada in 1936 in respect of the amount of the Canadian content in the Canadian manufacture of automobiles has been an influencing factor in the development of both a Canadian automotive parts manufacturing industry and an automobile manufacturing industry. We see nothing at present or in the near future to make any change in respect of this legislation.

Manufacturing firms established in Canada have also been able to utilize certain other goods and services supplied by their parent companies in the United States. Many of these are beyond the means of companies engaged in an exclusively Canadian operation because the size of the Canadian market would not have warranted the large fixed investment necessary to provide them.

These can be defined as follows:

1. Parent company research and engineering in product and in methods of production;

(for example, in the engineering field our own parent company's forward planning includes expanded research in the development of the gas turbine and other experimental automotive engines, in the field of nuclear energy, in electronics as it applies to vehicles, and in the applications of solar energy.)

2. Parent company investment in tools and dies for the frequent model changes necessary in the automobile business;





3. Parent company reputation -- or good-will -- built up by long and successful large-scale business operation and reflected in the wide-spread acceptance of the product name;

4. Managerial skills of parent companies, due to larger staffs and operations of a specialized nature.

All of these factors involve large rigid investments. These investments, in turn, depend upon a very large market for the product. This market does not presently exist in Canada.

And finally, the wider swings of the seasonal variations in Canada have also meant extra costs over those incurred in the United States because here we must have the tools and equipment with which to meet the demands of relatively greater "peak" loads.

All of the cost disadvantages which I have discussed so far are still insufficient by a considerable margin to explain the differences between the prices paid by Canadian and United States citizens for similar vehicles.

Canadian taxes impose a special barrier to enlargement of sales and to the increasing utilization by the industry of the economies which are to be found in large-scale production. Excise and sales taxes, aggregating 20 percent of the wholesale price of the Canadian-built car are about twice as heavy in a percentage sense, as corresponding taxes in the United States. In dollar amounts represented in the price paid by the consumer for the vehicle, they



are actually more than twice as heavy, since the base of taxation itself is made higher by the lesser economic advantages of the Canadian manufacturer.

In the example of the Plymouth four-door sedan, the Canadian federal excise and sales taxes amount to about \$200 more than the United States federal excise taxes.

The total tax burden of the nation must, of course, be spread across a wide range of economic activities, taking into account the character of those activities. However, the fact that automobiles are so highly taxed by the Canadian government definitely restrains the buying of motor vehicles.

A reduction in taxes would carry through to retail prices and so stimulate sales that, in our judgment, the result would be a greater total tax revenue to the government. Such a reaction to tax changes would benefit us all -- the government, the consumer, the employee and the industry.

To summarize, then, we feel that the cost and price disadvantages of the Canadian automobile industry, as compared with that in the United States, are due primarily to smaller markets, smaller scales of production and to Canadian tax policy toward automobiles.

What then, are the future prospects for offsetting these relative disadvantages?

As far as the economics of large-scale production are concerned, we believe that over the long-term future, Canada's relative disadvantages will





become less important. One reason for this belief is that our disadvantages are rooted in the absolute size of our market and the absolute scale of Canadian production -- not from their size in relation to that of the United States industry. Consequently, the long-term growth of the Canadian economy will make it possible to expand our industry and to produce our products at costs and to sell them at prices which are relatively more favourable than is now the case.

Besides this long-term growth of the economy as a whole, we are confident that the automobile industry itself is capable of great expansion in Canada; it may thus expand at a relatively greater rate. All of this can be enhanced by tax reductions.

To support this view we offer the following considerations:

The population of Canada has increased by 25 percent in the past 10 years. If this rate is maintained it will imply a population of 29 millions -- nearly double the present size -- by 1975. While this may appear to be a high estimate, it should be remembered that population forecasts in the years since the war have uniformly erred on the side of conservatism. In any event, it is possible for the scale of the Canadian economy, as measured by its population, to double in the next 30 years.

Incomes of Canadians, which doubled in the aggregate between 1946 and 1953 have been continuing their swift rise. Looking forward, then, where we may anticipate doubling our population, we



expect the incomes of the Canadian people to rise correspondingly, in keeping with the continuing progress of industry in the country. All studies of expenditures for automobiles with respect to income, show that such expenditures are very responsive to rises in income. Along with the factor of population increase, this indicates a demand for our product that is capable of vigorous growth.

As population and income rise, and providing that the government will eliminate the excise tax, the automobile demand will surely expand. This expansion will tend to reduce economic disadvantages inherent in the present low volume of the Canadian industry. Economies of the larger-scale production will in turn engender further growth of the industry.

There is another factor which we might mention in this connection. We have under development at the present time a programme which involves the shipping to Commonwealth countries of a very substantial number of Canadian-built vehicles. Also -- and this may be of even greater interest to the Commission -- we have finalized a plan to supply specialized component engine parts from our new engine plant, to be shipped to the United States for assembly and use there.

That we have a considerable way to go in developing our markets is demonstrated, once again, by what happened in the United States. Back in 1935 it was estimated that about four years of full Canadian production -- or a million more cars -- would be





required to achieve the same ratio of people to Cars in Canada as then existed in the United States. In 1955 there were about 5.4 persons per car in Canada, compared with 3.2 persons in the U.S. To achieve the same density as the American figure today would require about five years of production at the industry's 1955 rate of 375,000 units -- even though we were to scrap no cars at all.

Increasing the proportion of newer cars is possible in the Canadian automobile population. The average age of vehicles here is about nine years, compared with about six years in the United States. Nevertheless, because of public demand in Canada we have expanded production at a higher rate than has been the case across the border. This has been particularly marked in the years since the war.

The high and stable levels of employment and income achieved since the war, and the more rapid investment in and the development of Canadian resources which are now in progress constitute strong arguments for consumer confidence and with it, healthy automobile-buying intentions.

There is another point upon which you have asked my views. This has to do with the relationship existing between an adequate highway system and the purchase and operation of motor cars and trucks.

It is essential to the future of the automotive industry that Canada have sufficient good roads to keep abreast of the demands that the country's growth entails. Whereas vehicle registrations for all of Canada increased by approximately



129 percent between 1945 and 1953, the surfaced mileage of highways increased only by approximately 44 percent. The number of automobiles for each mile of surfaced road has steadily increased as well. In 1945 the figure was 11.4 automobiles; and in 1954, 18.6 automobiles.

In a country of Canada's sparse population and vast distances the automobile must be regarded as a necessity which is vital to the transportation requirements of the people. We know, from a survey conducted a few years ago, that more than 65 of every 100 miles driven in a motor car was for a purpose having to do with making a living. Good roads, adequate roads and safe roads are closely allied with the future development of our industry.

In conclusion, it is our belief that the policy of the federal government towards our industry should be guided by considerations of high potential demand and the benefits to Canada's economic development which would accompany a higher degree of automobile production and ownership.

Greater and greater economies possible in large-scale production, together with the development of other industries subsidiary to ours, are powerful arguments for a more equitable governmental policy. Elimination of the present heavy excise tax and substantial reduction of the sales taxes on automobiles are steps within the power of the government. Such reductions, in turn, would make possible immediate price reductions to the consumer and would, in conjunction





with the rising level of incomes, uncover layers of demand to enable the industry to move nearer to its maximum scale of output.

And finally, let me assure you that our company will continue to be operated in the best interests of Canadians -- as it has for 30 years.

We have made what I think is a substantial contribution to the Canadian economy in peace. We have played our full role in war. We have survived depressions, and we have invested a good many millions of dollars in anticipation and support of prosperity.

The economic impact of our operations is felt far beyond the pay cheques earned by the 12,000 employees who are nominally on our company's own rolls. It is felt as well, by the staffs of more than 1,200 independent businessmen, who are our dealers, and by the workers in 450 manufacturing firms which provide us with the bulk of our productive materials.

To these may be added the thousands of others who, in turn, supply our vendors, as well as those in transportation, finance, and other fields, and whose livelihood derives in large or small measure from our company's success.

The total, Mr. Chairman, must be an impressive sum. It is a sum which is capable of substantial enlargement as Canada moves toward the promising future which we know lies ahead.

We expect to grow with Canada.



Thank you, Mr. Gordon and gentlemen, for your most attentive hearing, and for having given me this welcome opportunity to put my views before you.

THE CHAIRMAN: Thank you, Mr. Row.

MR. GRAUER: Mr. Row, I was interested in your statement on page 10 dealing with research, about possibilities in the engineering field which are being looked into by your parent company. I realize this is a broad gesture to the future but the one I was particularly interested in was the application of solar energy. I don't know whether that has gone to any extent but does that mean we can expect to be driving cars without gasoline in the future?

MR. ROW: Well, sir, I would say that was a long way in the future.

MR. GRAUER: Was that the only application of solar energy you had in mind?

MR. ROW: I am not in a position -- I don't mean I have not the authority -- but all I can say to you is that our research engineers are not overlooking any opportunities in any matters in regard to the matter of power to propel vehicles in these days.

MR. GRAUER: One realizes there are a number of difficulties in the way of adapting nuclear energy and so on to an automobile but on the next page at the top you refer to the wider swings of the seasonal variations in Canada and you refer to the relatively greater peak loads. I wonder if you would





mind expanding how seasonal variation leads to relatively greater peak loads?

MR. ROW: Yes, in the United States, they have their Floridas, Alabamas and Californias where they can spread their production in the winter months when the weather is much less severe, whereas our dealers must bank to a great deal on what will be a seasonal demand. At the present time we are getting held back on account of weather conditions. They want them in the spring.

MR. GRAUER: Canada is a summer time country.

MR. ROW: Yes, we have to anticipate that in our production schedules and accumulate inventories.

MR. GRAUER: At the bottom of page 11 and on page 12 you refer to taxation and the fact that a reduction in taxation would stimulate the sales of automobiles. I am just wondering -- one realizes, of course, that a lowering of taxation will stimulate the consumption of most things but will stimulate some much greater than others. Did you have any particular experience or facts or proof in mind with respect to automobiles or is it simply a deduction?

MR. ROW: It has been our experience, sir, that when a substantial tax reduction has been made and the price has been brought down it has had a stimulating effect on sales. People do anticipate budget reductions and our experience has been we



definitely got a real demand from another strata of purchasing power. For instance, \$200 is a very substantial amount to an everyday purchaser between a new car and a used car.

MR. GRAUER: If taxes are reduced it would affect automobiles very greatly but I suppose a reduction in the personal income tax would have an effect too, but not to the same degree perhaps?

MR. ROW: Not to the same degree.

THE CHAIRMAN: This is a rather hopeful morning, isn't it?

MR. GRAUER: What is your experience with the small cars which could be produced at a considerably lower price? I believe that small cars have been experimented with by American companies without any too great success and yet in Canada we have some things like Volkeswagen and things like that which seem to have a pretty large sale.

MR. ROW: Well, principally, speaking of my own company, we have many developments and designs that small cars have had over the years. We find that it is rather difficult to produce those smaller cars economically as the public would expect them to be because the demand is so much smaller than for a full sized car and with the machines and tooling and so on there would be a high unit cost, and, too, it is quite surprising how so many people like to keep up with the Jones's. They like a bigger automobile. We have not got the strongest demand. I would say there are only 2 percent of all the total cars sold that are





small cars. It is not a volume undertaking.

MR. GRAUER: A reduction in taxation will increase the sales to a substantial degree?

MR. ROW: They don't want a small automobile. That has been our experience here. It is a limited field of demand.

MR. GRAUER: That is a very interesting statement on the top of page 14 where you apparently have a new engine plant which ships specialized parts into the United States for use there. Is that a situation that is likely to expand or is this isolated?

MR. ROW: This particular case is isolated but it was a type of engine they wanted and required over in the States. It is their first undertaking with it. If it can develop, it would probably develop into a very sizeable account for us but the present plan is more or less of an experimental programme. It is a very substantial order for one of the United States models for a higher powered job.

MR. GRAUER: If there are possibilities you are going after them?

MR. ROW: Well, we will explore this and see if we can try to increase our exports.

MR. GRAUER: With regard to what both you and Mr. Sale spoke about, the problem of road congestion, the submissions from the railway companies has indicated that they feel that if they had more flexibility in the way of regulation they could relieve that sort of congestion at least to the extent of recapturing some of the freight they have



lost to these large trucks.

MR. ROW: Well, we are trying to assist them by going the Seaway.

MR. GRAUER: In your submission I gather you think they have possibilities of expanding railway freight by going in for specialized equipment?

MR. ROW: Yes.

MR. GRAUER: On that point they did say that specialized equipment takes you one way but apparently in the United States the equipment does take them one way and then can be used for return trips?

MR. ROW: That is right, on other commodities.

MR. GUSHUE: You say on page 4 or 5, you refer to the possibility of expansion in two directions, one by an increased sale of vehicles in Canada. That much you have dealt with fully and the other was ship more of our production abroad. Have you something wider in mind there?

MR. ROW: Frankly, our export merchandising is executed by our export corporation in Detroit. However, we have enlisted their aid to make a survey of the right hand drive markets of the entire world and we are now developing studies to see why we, Chrysler of Canada, can't supply the right hand markets of the world from Windsor. That is specifically the thing we have in mind.

MR. GUSHUE: You note there that it offers substantial promise of realization.

MR. ROW: Yes, there is a very substantial





volume when you consider all the right hand drive markets. We do hope to participate in that.

MR. GUSHUE: I take it you feel also that given the increased production and certain other things which you have mentioned that there is a possibility of improving the competitive position with United States industry?

MR. ROW: No question about it. Volume is the big answer and if we can get our volume up, the domestic market will assist as well as export.

MR. GUSHUE: And the tax situation?

MR. ROW: Yes, and the tax situation. We will be in a more favourable position with our United States competitors.

MR. STEWART: Mr. Row, Mr. Grauer referred to a section on page 10 about research. I had a rather different question to ask. Surely in research the economies of skill which are so important in the production end are not applicable, are they?

MR. ROW: I don't understand your question, sir.

MR. STEWART: You have to have a large market in order to get down the production costs?

MR. ROW: That is right.

MR. STEWART: Would that be true to the same extent with research costs?

MR. ROW: Our research costs per year are in the millions and millions and if we took the unit that we produce in Canada, in our case say roughly 700,000 passenger cars a year, divide it into those



millions of costs of research I am afraid the Plymouth would cost an awful lot more than it does today. It takes volume to support massive research operations.

MR. STEWART: But there is no particular reason why the research should not be done by the subsidiary, is there?

MR. ROW: No, except it would become more costly to split the operation when the one central point serves all the industry.

MR. STEWART: So that the equipment is the important element in research, is it not?

MR. ROW: The manpower is a big item and a very heavy capital investment in equipment.

MR. STEWART: With reference to No. 4 here, in what way does this fact of the managerial skills of parent companies operate in relation to subsidiaries?

MR. ROW: I might just explain it this way, that with our company in the States doing 1 million passenger cars a year, they can have highly specialized financial men, research engineers, highly specialized sales engineers and various undertakings can be highly specialized and large staffs, because again their volume can afford to support those highly specialized people. Over here with our smaller volume many of us have to be jacks-of-all-trades, but they can afford to have the individual specialists because of their large volume.

MR. STEWART: And are the judgments and skills which are applied in the parent company, are they applied to your company?

MR. ROW: It is available to us, sir.





MR. STEWART: I was interested also in your reference on page 3 to the increasing percentage of people on your committee who were Canadian by birth. Is there any real advantage to that?

MR. ROW: Yes, we have primarily in this brief tried to impress you with the fact that it is Canadian operated. We have an awful lot of good Scots men in our organization.

MR. STEWART: I don't think I will ask any more.

THE CHAIRMAN: I think you are entitled to register a note of protest.

MR. GUSHUE: I was wondering if there was a distinction there in your reference to having a number of Canadians and also some good Scots men.

MR. ROW: No, we have many.

THE CHAIRMAN: Mr. Row, Mr. Sale made some comments about the reduction in the spread between Canadian and American manufacturing costs for the higher volume models over the past 20 years. I don't mean in exact terms, but would there have been a substantial reduction in your company also?

MR. ROW: Yes, sir, I am speaking only, Mr. Gordon, from a standpoint, we will say, of retail price to the public and I think they follow the trend of costs.

THE CHAIRMAN: Well, on that I quite appreciate that when it comes to cost comparisons you may not have the corresponding figures in the United States although I suppose the wholesale picture selling



prices are available?

MR. ROW: That is right, and our retail, of course, we can acquire but I have in my mind -- in fact I think it is quite accurate -- a four-door Plymouth 8 cylinder sedan including taxes between Canada and the United States is 14.87 percent higher now than it was back in 1930. I think you were saying 25 percent, so today our retail prices are 14.87 percent higher than a comparable model in the United States.

THE CHAIRMAN: I think when Mr. Sale and I were talking we were talking about the factory selling price ex tax.

MR. ROW: And I would think the wholesale would not be far from that percent in ratio.

THE CHAIRMAN: I don't want to go into it now.

MR. ROW: Your Commission could have those figures any time.

THE CHAIRMAN: I was interested to learn that both you and Mr. Sale were in favour of the content character arrangement.

MR. ROW: Yes, the present content arrangement.

THE CHAIRMAN: I asked him some questions about the possibility of manufacturing frames in Canada, which would mean bodies, stampings and automatic transmissions. Would your views be substantially the same?

MR. ROW: Yes, on the automatic transmissions our design is still fluid. I would say somewhat





as Mr. Sale has said that within two, three, maybe four years to crystallize a basic design that will work well. Our studies show a very substantial investment, to ourselves \$25 million or \$30 million. True, we would be forced to use our design because it is inherent with our power plant in the car. We can't have a universal power plant but they would have to be supplied to us as Mark No. A and Mark No. B.

THE CHAIRMAN: Just so that nobody will think the automobile companies are not getting any of their markets, I asked Mr. Sale what percentage he expected to have of the Canadian market. He was fairly optimistic.

MR. ROW: If you add ours to that, Mr. Wecker will be selling apples.

THE CHAIRMAN: Well, we are very grateful to you, Mr. Row, for coming to us today and for giving us the benefit of your thoughts and experience and also, as I say, for the help you are giving to our research staff. Thank you very much.

MR. ROW: I am highly honoured.

THE CHAIRMAN: We will adjourn until 2:30.

(At 12.40 P.M. the Commission adjourned until 2.30 P.M.)

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A F T E R N O O N      S E S S I O N

APPEARANCES:

Mr. J.J.Piggott,  
Piggott Construction Company Ltd.

Mr. L.J.McGowan, Vice-President  
and General Manager,  
Foundation Company of Canada Ltd.

Mr. P. M. Gross, President,  
Gypsum, Lime & Alabastine Canada Ltd.

Mr. G. T. Clager, President and  
Managing Director,  
Dominion Woollens & Worsted Limited.  
Mr. J. Armstrong.

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THE CHAIRMAN: Well, we will come to order, gentlemen. We are very grateful to you, Mr. Piggott, for being willing to come over and tell us what is going to happen in the construction industry. I think everybody knows how important the operations of your industry are to the prosperity of the country and if you can supply us with a little wisdom on the subject we will be most appreciative. We will mark your brief Exhibit No. 157.

Would you like to begin?

MR. PIGGOTT: Mr. Chairman and members of the Royal Commission, the construction industry in Canada has been expanding very rapidly. The Dominion Bureau of Statistics' reports bring this out very clearly. The dollar value in 1948 was \$1,280,000,000 and the increase was very steady from that to 1954 when it was \$4,695,000,000 and it is expected that 1955 will be \$5,126,000,000. No doubt other businesses have





expanded, but it would seem that construction has been outstanding. Housing, which has always formed a large part of the construction programme has increased very greatly. This has been due to a great extent to the easy terms which the Federal Government, under the Central Mortgage & Housing Administration, was able to provide. Apart from housing, building and engineering projects have been increasing in number and noticeably in size.

The general growth, particularly in the urban centres, has not been without its effect on many of the services, supply of materials, supply of labour and other factors of this nature associated with building. Several times in the last five or six years the whole construction industry has been seriously delayed through shortages in reinforcing steel rods, structural steel shapes and Portland Cement.

At the present time the situation in regard to reinforcing rods and structural steel shapes is acute and the outlook for the coming season is bad. There will no doubt be a shortage of cement for 1956. In regard to cement, however, new plants are being constructed and there is some hope that in 1957 and from then on, unless the programme keeps on expanding, there will be a sufficient supply of cement.

Reinforcing steel refers, of course, to rods that are used in that type of structural design known as reinforced concrete. It is a system of structural design that is an alternative to structural steel or the old fashioned mill construction. There



has been trouble about reinforcing steel for a long time. Except on very rare occasions, the mills have been far behind on their orders. If the tonnage required by the market is checked up, it would run no doubt at 200,000 tons or more. It would not appear that more than half of this is produced in Canada. I am unable to say where the rest would come from, but in the past few months my company has been buying, at quite high prices from jobbers, reinforcing steel that has been imported from the United States, and offers <sup>of</sup> Belgian steel at high prices are being constantly received. It would be interesting to have a study made, which could be done very quickly, as to what steps have to be taken by the various steel mills to balance the demand.

Structural steel has been in very short supply for a long, long time. Most of our structural steel is imported from the United States. The largest steel member that we roll in Canada is rolled by the Algoma Steel Company and is, I believe, an 18 inch I beam. The other steel companies roll plate and small angles and channels. Our heavier columns and beams have to be imported from the United States. It is doubtful at this time if structural steel for new buildings can be delivered to the fabricator before the fourth quarter of this year.

When shortages in cement develop, the Canada Cement Company has not hesitated to import cement from other countries and we believe this to have been done at considerable expense. By importing





cement and putting their regular customers on a quota basis, the delays have been minimized to some extent. The winter time ordinarily gives the cement companies a chance to catch up and fill their silos, but it is doubtful in the past few years if they have been able to store up any cement.

It would seem that up to recent months there has been plenty of money available for financing all the construction that has been undertaken. The interest rates are advancing rather sharply now and it may be that in 1956 and 1957 money may not be so easily available except at much higher rates of interest. This is probably not due to the scarcity of money but rather to the fiscal policy on the part of the Federal Government and the Bank of Canada.

Generally speaking, the employers who build houses and apartments are a completely different group from the construction contractors who do the larger commercial, monumental and engineering works. It might be said that in the field of housing, most of those engaged in this work are what is usually termed speculative builders, that is, they build and sell. Construction contractors, whether it is in building or engineering, have a different kind of business. They prepare estimates for public works and construct these works, as a rule, on firm prices, on which they either make or lose money. Sometimes, because of the necessity for speed and lack of completed plans and specifications, work is done on a cost plus a fee basis, but even in this field, the



work is usually competitive.

The field about which I speak is the field of contracting. In this field plans and specifications are invariably prepared by qualified architects and engineers. The usual procedure is that the architect makes the designs and the floor plans of the building and consulting structural engineers, working in collaboration with the architects, make the structural design to carry the architects' building from the foundation to the top; in addition to this, mechanical engineers furnish the designs necessary to take care of such mechanical trades as heating, plumbing, ventilating, electrical and air conditioning.

Right across Canada on medium and large size projects, whether they are buildings or engineering projects, tenders are taken from general contractors. A general contractor in preparing his bid usually calls on a number of subcontractors in the various trades to furnish him with tenders in advance of his bid. The usual procedure is that the general contractor uses his own estimates on the work he does, such as excavation, reinforced concrete, masonry and carpentry and adds to them the tenders of the various subcontractors whose tenders he proposes to accept should be work be awarded to him. Usually the architects or owners, depending where the tenders go, point out in calling for bids that the lowest or any tender will not necessarily be accepted.

Up until 1930 or thereabouts, the general





contractor quoted one firm price for the complete building, accompanied usually by a completion date. In the 1930's in construction, as well as in all business, competition became excessive. The buyer in any business could always do better and better by ~~waiting~~ and bargaining. In the field of general contracting, no doubt this situation was fully exploited. Sub-contractors complained that the general contractors, after using their prices preliminary to contracts being let, once they had the general contract, shopped about for better prices on these subtrades, and had little trouble in re-opening the competition to their own distinct advantage. Architects were sympathetic to the position of the sub-contractors and, from then on, a system was built up in an effort to improve conditions. Ever since that time, as a general rule, contractors are required in tendering to name the subcontractors whose bids they have used and to whom they propose to let that particular trade if the general contract is awarded to them. In some cases the amounts as well as the names have to be listed.

It should be pointed out that practically all of the prices in the many sub trades involved in any building contract, are received by the general contractor by telephone within the last hour or two before tender closing deadline. It is a fact that in many cases, prices for the larger sub trades are received within minutes of the tender closing time. This means that the general contractor in being required to list a name against each sub trade, must commit himself to



the employment of twenty or thirty subcontractors, with whom he has had no opportunity to discuss the makeup of the sub trade price, the quantities on which it is based, the approximate time schedule which will govern, the type and number of personnel to be provided, or any of the other many important considerations which deserve detailed study prior to the expenditure of the very large sums involved. This system has the effect of "freezing" costs at a high level and in some ways invites a certain amount of collusion among the sub trades.

It is difficult to correct existing conditions. I would suggest, however, that a general contractor should be permitted, if he chooses, to prepare his tender on his own estimate of all trades and that, in fact, is what would surely meet the problem. If this were done, he would be under moral obligation to no one, and he could proceed to purchase each of the sub trades when he was satisfied that the figures had been properly prepared and represented good and true value for the money. It is a fact that any general contractor, of standing, must of necessity be conscious of the importance of good will. He knows that unethical practice will react against him.

In recent years there has been a growing practice on the part of many architects of withholding certain trades from the work tendered on by the general contractor, and to call separate direct tenders on these trades. It has become a commonplace for many architects to call tenders directly for such work as Plumbing, Heating,





Ventilating, Electrical, Elevators, the supply of Cut Stone, Kitchen Equipment, Aluminum Windows and so on. These tenders are usually called ahead of the general contract tender and are then turned over to the successful general contractor to supervise and coordinate with the balance of his work.

This practice unquestionably leads to higher costs. A general contractor necessarily possesses a more detailed knowledge of costs than does an architect since his success or failure is largely dependent on it. He has an obvious incentive to maintain these costs at the most economical level. At the same time, a subcontractor's cost can vary considerably depending upon the efficiency of the general contractor under whom he must work. If the general contractor is slow and inefficient, then the subcontractor's work will drag and his costs will increase. However, when a subcontractor tenders directly with an architect, he must allow in his cost estimates for the possibility that he may be working with the least efficient general contractor bidding. The privilege of buying at a preferential price, a privilege earned by a company through its performance on similar work over the years and common to all industries is denied him, but only by adding to the cost of the project. The general contractor's tender is similarly affected when he must finalize his own cost estimates without knowing the names of the subcontractor firms to be employed on certain important phases of the work. In addition to the fact that it increases



construction costs, this procedure does nothing to discourage inefficiency or inadequate organization.

No one can deny that conditions back in the '30's were bad. There is no doubt the same conditions existed in all types of industry and business. Construction, however, seems to be the only industry which saddled itself with a system of this kind. This system is responsible, however, for unduly high costs, which the public pays. It is also responsible for opening up a field for what is termed "package deals". By this is meant the deal between owners and builders direct, in which the builder furnishes plans, specifications and building complete. There is developing considerable competition between builders who have entered this field, and it goes without saying that without the offices of architects or engineers, much poor building will result. It also has the effect of inviting the operations of American organizations in the package deal business. The trend is strong. It is our feeling that it is most important to the industry and the general public, from the standpoint of proper costs and good building, that the general contractor be restored to its proper position.

The architect has a most important function to perform as does the general contractor. However, these functions are distinct and separate and there are marked differences between them. Each of them requires its own particular skills and type of organization. An attempt to combine these functions on the part of either the architects or the general contractors will result in





either excessive costs or lower standards of construction, or both.

There is and has been for many years a scarcity of trained mechanics in the different trades. Some trades are worse in this respect than others. In the pipe trades and in the electrical trades, apprenticeship has been turning out a fair number of mechanics. In the province of Ontario, for instance, the numbers being trained in these trades are probably sufficient if the products of immigration are added to them, but in the other trades, the trowel trades for instance, the numbers being trained are hopelessly inadequate. This applies also to sheet metal and painting.

In all provinces, apprenticeship plans under Provincial Statutes are in existence and are operating. In Ontario the oldest system, which was commenced in 1928, carries a constant load of about 2800 young men in the various trades in various stages of training. A summary of the numbers being trained in each province in 1954 is as follows: British Columbia 609; Alberta 1595; Saskatchewan 409; Manitoba 580; New Brunswick 148; Nova Scotia 251; Ontario 2,887; Quebec 14,471. For every apprentice that is being trained in Canada, there should be at least four. (See records of Annual Reports from Canadian Construction Association Apprenticeship Committee over the past three or four years -- reference S.D.C. Chutter, Ottawa.).

In regard to these apprenticeship systems, it should be pointed out that they are probably the



best systems in the world for the purpose. They not only train mechanics fully qualified for their various trades, but in a broader sense they are potential foremen and superintendents, depending on their own personality and character. These apprentices in the main are trained on the job along with qualified mechanics under a foreman or superintendent, supplemented by day classes in technical school centres and night classes in technical or vocational schools.

Considerable publicity has been given to the shortage of engineers in Canada. As a rule, this shortage is expressed in terms of the extent to which the total number of young men graduating annually from engineering courses in Canadian universities is exceeded by the demand for engineers on the part of Canadian industry. To assess the situation on this basis is to over-simplify the very real and serious problem which exists. A young man just concluding four years of engineering school is not an engineer within the true definition of the term. He has been exposed to a basic academic training in many phases of the field of engineering. Upon graduation he is in a position to learn more quickly and to a more advanced degree, than one who has not had the advantage of a university training. The benefit to be derived by such a young man from his four years of schooling at a university, will depend almost entirely upon the type of employment he seeks and engages in during the three or four years immediately following his graduation. In my opinion, this is true of any of the various branches of engineering,





and it is most certainly true of engineering as related to construction."

A young graduate entering the construction industry should seek an employer who is prepared to give proper consideration to his training, and to providing him with an opportunity to see how theory is related to practice both in design and method.

Many employers in the construction industry have been holding out offers of such employment to graduate engineers. My own company has devoted a good deal of planning and expense to the operation of a carefully planned programme of field training for young engineers. The results of these efforts have been quite disappointing. It is a common occurrence that a carefully selected engineer in training earning approximately \$350 per month as a trainee, will complete perhaps ten or eleven months of a training programme designed to span from  $2\frac{1}{2}$  to 3 years, at which time he will resign and accept employment in an industry that may be completely unrelated to construction, or to the course in which he graduated from university. Generally speaking, I believe the main reason for such cases to be the sense of prestige that attends the status of an employed graduate engineer as compared with that of a trainee or student.

In most cases, the young man's new employment will be in the sales division of some large corporation where the extent of his technical knowledge and experience may be of secondary importance. The end result, generally, is that the young man in question



never becomes fully qualified as an engineer, although entitled by legislation in most provinces in Canada to use the title Engineer and to advertise his services as such.

In short, it is my opinion that the number of properly qualified Canadian engineers is not increasing as it should, in direct proportion to the numbers of engineers graduating from Canadian universities each year.

I believe that one of the principal deterrents to the acquisition of a thorough and extensive field training is the fact that existing Legislation in most provinces in Canada provides that upon graduation a young man may be enrolled as a registered professional engineer under the laws of the province either immediately, as is the case in Quebec, or within a matter of twelve months as is the case in Ontario. The Province of British Columbia is a notable exception in this regard. It is my opinion that a young man upon graduating from an engineering course in a recognized Canadian university should be required to spend a period of not less than three years in the field in his chosen branch of engineering, and to produce satisfactory evidence as to the manner in which this period has been spent prior to being registered as a professional engineer. Such a requirement would provide the young graduate with a badly needed incentive toward the acquisition of a reasonably broad field experience immediately following graduation.

Our Canadian universities are excellent, and the academic standards in their various engineering





schools are high. Canadian engineers who have given the time and effort toward obtaining a thorough field experience following graduation will rank with the best engineers produced by any country. I sincerely believe, however, that if the growing needs of this country are to be served by Canadian engineers, an incentive must be provided to ensure that our young student engineers will take full advantage of the basic engineering education which they have received, by developing their knowledge and skills through actual field experience in their chosen branch of the Engineering profession.

The construction industry is a large and diversified one and it would be presumptuous of me to attempt to deal with all of its various phases. I have tried to express my opinions on certain factors which I feel will influence the future of the industry and which I believe to be deserving of attention. In doing so I fully realize that there will be other matters affecting the future of construction in Canada, probably of equal or greater importance, which will undoubtedly be brought to your attention during the course of your study of this country's economic prospects. If I have succeeded in stimulating some thought toward the solution of the few problems to which I have made reference, I shall be deeply gratified. In conclusion, I wish to thank you, Mr. Gordon, and the members of your Commission for extending to me the privilege of appearing here and for the courtesies which you have shown me.



THE CHAIRMAN: Thank you very much.

At the beginning of your submission you talk about shortages of reinforcing steel. How much of the total requirements are produced in Canada roughly -- half or a quarter?

MR. PIGGOTT: I would say not more than half. That is purely speculation though.

THE CHAIRMAN: Do you know if there is capacity to produce the balance?

MR. PIGGOTT: There isn't capacity at the moment to meet the demand by many thousands of tons.

THE CHAIRMAN: From the standpoint of the steel companies is it a demand which they are afraid fluctuates from year to year and is that why they do not increase capacity?

MR. PIGGOTT: That may be the reasoning that they have followed, but it is a fact that we have been experiencing a reinforcing steel shortage with relatively brief intervals of respite ever since World War II. We have never had any extended period of free and easy reinforcing steel.

THE CHAIRMAN: As far as structural steel is concerned, I suppose the variety of shapes and sizes and specifications would make it more difficult for the steel companies to provide?

MR. PIGGOTT: Yes, I believe that the steel industry has thoroughly explored that matter and has decided that the Canadian market would never justify the heavy investment which would be required





for the rolling of those heavier shapes.

THE CHAIRMAN: In reinforcing steel, to go back to that for a moment, what would be the total domestic demand in dollars in a year, have you any idea?

MR. PIGGOTT: I don't know, Mr. Chairman.

THE CHAIRMAN: Now, you said quite a bit about the relationship between the architect and contractors and subcontractors and the effect which the present relationships have on costs. Where is the point of the bottleneck? Is it architects or is it not as definite as that?

MR. PIGGOTT: It is a system, as I said, that was really the result of conditions obtaining during the depression years, which I believe I am correct in saying was initially sponsored by the architects on behalf of subcontractors whose interest had been probably exploited in many instances under those conditions. The system has remained and continues to be not only a standard part of the tender calling documents issued by every architect, but that system is being further complicated by architects proceeding to withdraw certain important phases of a project from this general contract bid, calling tenders on it directly and then throwing it back in which, I am certain I am right in saying, contributes very substantially to increased cost in construction.

THE CHAIRMAN: Well, you do hear on occasion that the costs of construction are relatively



high. I don't know what the comparison is but people who are building buildings usually find they are higher than they formerly were. Would a change in these present procedures make an appreciable difference in the cost, do you believe?

MR. PIGGOTT: In my opinion yes, most decidedly.

MR. GUSHUE: How should it be brought about?

MR. PIGGOTT: Well, my formula is merely a suggestion. There may be other better ones but I would like to see the system revert to what it was before the depression years brought about that change. A firm of general contractors, in other words, must necessarily have a staff of estimators qualified to estimate the cost of every trade that goes into a building. They submit one lump sum price for that building and they have to stand or fall by that price. They do their buying on their own considered estimates of their subtrades to whom they are not tied at the time they tender. There are many things that have to be explored in buying an article that is complicated as all major subcontracts are. No one would think of going out and buying a half million dollar piece of equipment without giving it very thorough study. We are required to buy hundreds of thousands of dollars, in some cases millions of dollars worth of subcontracts in a matter of a few minutes, at least committing ourselves to them in the last 50 or 60 minutes before tender closing time, sometimes with firms whom we don't





even know, with no opportunity of discussing the general programme of construction that it is intended to follow, what guarantees they propose to offer, what supervision of staff or anything else and there is no question about it from a general contractor's point of view he must have a safety factor in there to protect himself in certain cases. But as far as the subcontractors are concerned they put in one price and that price is accepted or rejected immediately they put it in. There is no opportunity to review it, no opportunity to point out methods by which savings might be realized.

MR. GUSHUE: Is there an association of contractors throughout the country as there is of architects?

MR. PIGGOTT: Yes. Actually, it is a little bit complicated in this respect, quite a bit complicated, in that the Canadian Construction Association which is the voice of the industry in Canada includes all branches of construction, subcontractors, suppliers, manufacturers and general contractors and there is no separate national association of general contractors as such.

THE CHAIRMAN: On that last point, of course, that is why this Commission is grateful to people like yourself who have been willing to come here representing their own firms to support or qualified views which we expect to receive from the various associations.

MR. GUSHUE: I am just wondering where the remedy is. It seems to be in the hands of the



industry somewhere, whether of the general contractor or a combination of the general contractor and the architect or both. I was wondering what your idea was?

MR. PIGGOTT: Well, I would not like to suggest that the cure could be effected with one stroke of the pen. It is something that would ~~take~~, I believe, a fair period of time of intelligent discussion at the level of the general contractor and the architect.

MR. STEWART: Are you general contractors pretty well of the same view, Mr. Piggott?

MR. PIGGOTT: I believe so. The subcontractors have several reasons for preferring the other system. On the one hand it certainly provides an opportunity for the inefficient subcontractor to enter the field almost on the same footing overnight as a firm that is well organized and of good reputation.

MR. STEWART: What is the procedure of the Public Works Department on the matter of tenders?

MR. PIGGOTT: Public Works recognize the general contractors' position to the extent that when they call a general contract tender they include everything in that tender. It is not their practice to pull trades out of the general contract tender at all and I think I can safely say that general contractors across the country look upon federal Public Works as being the most able buying agency in the country by far. Until a year ago federal public works did not require a general contractor bidding to commit himself by listing the names of the subcontractors to whom he proposed to award the work. Pressure was brought to





bear a little over a year ago, and, I think, effective January of 1955 they issued instructions with each tender call thereafter to the effect that the general contractor had to include in his tender the names of each subcontractor to whom he would propose awarding that portion of the work. As I say, that is within the last twelve months. Beyond that though, they still recognize the importance of leaving the entire project in one overall parcel.

MR. STEWART: The effect of this arrangement, I suppose, is really to spread the work more around. I am not thinking of the Public Works but the total effect is in the end to spread it around more?

MR. PIGGOTT: You mean the listing of names of subs?

MR. STEWART: The listing.

MR. PIGGOTT: No, the ----

MR. STEWART: When this was brought in in the '30's that would be the purpose of it wouldn't it?

MR. PIGGOTT: No, actually in the '30's there were many people and companies with their backs to the wall. A man had to get a job even if he took it at a loss to keep his credit and be able to draw an advance etcetera, and as a result he was in a position where he could be taken advantage of. I think that everyone would agree that the market that has existed here since World War II bears no resemblance to the market that existed in the '30's. Every industry was subject to those conditions in the '30's. The construction industry is the only one that has come out saddled with the system



I have described.

MR. GRAUER: You say on page 4:

".....it also has the effect of inviting the operations of American organizations in the package deal business."

Is that the only place you run into competition with American organizations?

MR. PIGGOTT: No, but as I said in my concluding remarks there are many aspects of this field that I have not attempted to touch on. However, the package deal type of American organization is well known to most general contractors throughout the country. There existed in the States long before any market arose here, firms who were set up to carry out that type of operation particularly all specialized forms of pre-forming work and that sort of thing and they have been moving in here in increasing numbers and they have been offering the package deal and not only in their specialized field but in the general building field as well because of the growing trend in that direction which, in my opinion, has been greatly accelerated by the premium that is placed on the cost of these buildings through the system I have discussed with you.

MR. GRAUER: That is more or less forcing the hands of the Canadian organization?

MR. PIGGOTT: Yes, the Canadian contractors have to come along and offer their services in a package deal fashion in order to compete with the American firms who are moving in but also since in removing certain works and calling separate tenders the architects are actually





performing functions that properly belong to the general contractor who is staffed and organized to handle that particular type of work, the general contractor as a matter of self-preservation is gradually tending to encroach on the architect's field. The evil in that, in my opinion, can be summarized briefly in this way, that there are a number of first class construction companies in this country who in offering their services in a package deal would give the project concerned proper architectural treatment and better engineering treatment by having qualified persons on their staff but when you place that on a competitive basis you have no yardstick to measure it by. You are competing in design and as a result there is no question there would be a lot of poor building. There are a lot of firms who in order to be competitive would never staff themselves with the type of people to do a first class job.

MR. GRAUER: This is an undesirable trend that seems to be gaining momentum?

MR. PIGGOTT: It is gaining momentum primarily, I believe, because of the system that has been set up and in fact encouraged through the architectural groups across the country.

THE CHAIRMAN: You referred to the added cost which this present system entails in construction work. You said it was appreciable. Do you mean in the order of 10 or 15 percent?

MR. PIGGOTT: Yes, sir.

THE CHAIRMAN: 20 percent?



MR. FIGGOTT: No, it is impossible to draw four lines around it but I would say in most cases on a large building project involving any heavy proportion of subcontracts that the savings would be upward of 10 percent.

THE CHAIRMAN: One other question: In order to get around this and assuming the people we are dealing with are well known reputable contractors, are they better off to charge on a cost plus basis?

MR. FIGGOTT: No, from a point of view of costs generally speaking I think it cannot be successfully argued that a cost plus basis is more economical than a lump sum basis. The cost plus basis is the only way to handle a large project for which the drawings are not sufficiently advanced for the calling of lump sum tenders. They might save as much as a year in time by proceeding on a cost plus basis which is worth probably considerably more than the saving they would gain on a lump sum contract.

MR. GRAUER: I was interested in the figures in the first paragraph on page 5 dealing with the various provinces and their apprenticeship plans. Alberta, Ontario and Quebec seem to be outstanding in the number of personnel in these plans.

MR. FIGGOTT: The Quebec system is entirely different to the system we have in the other provinces across the country and the details of that system I do not have at my finger tips but I have given a reference to Mr. Chutter of the Association who has the entire story but that is the reason behind it. They





operate on a system which differs from ours fundamentally in that for example in Ontario each apprentice is indentured, there is a contract between the boy and the employer for a four year period. There is an obligation on the part of both of them. That practice does not apply in Quebec and a boy serving an apprenticeship there will move from employer to employer or job to job with entire freedom carrying his card.

MR. GRAUER: Do you know the story on Alberta?

MR. PIGGOTT: No, I don't, I am sorry. I think the Canadian Construction Association can give you a complete brief on that whole story.

THE CHAIRMAN: I thought what you have to say about what happened to engineering graduates was very interesting. I suspect it happens in some other industries too.

MR. STEWART: I am referring to page 2 where you say:

"This is probably not due to the scarcity of money but rather to the fiscal policy on the part of the Federal Government and the Bank of Canada."

The construction industry is a very large industry as your figures indicate and it is a rather unstable industry or at least was in past experience. Have you any view on these sorts of regulators?

MR. PIGGOTT: No, sir.

MR. STEWART: You haven't?

MR. PIGGOTT: No, sir.



THE CHAIRMAN: Well, Mr. Piggott, we are very grateful to you indeed and you have certainly contributed a lot to the things we did not know even though it might take quite a while to work some of them out.

MR. PIGGOTT: Thank you.

THE CHAIRMAN: Well, Mr. McGowan, it is nice of you to come here. We will mark your submission No. 158.

I might say, Mr. McGowan, that when Mr. Grauer, Mr. Gushue and I were in Aklavik we had news of a white man who was mooching around the Arctic Circle. They thought it was a very energetic man who was connected with The Foundation Company.

MR. MCGOWAN: Well, Mr. Chairman and gentlemen, ever since we were asked to appear before you and express views on the probable scale and future of construction activity in Canada, we have been impressed by the idea that it has been decided that it was time to take an inventory of Canada's stock in trade and that to do this satisfactorily the help of the citizens would be enlisted to write up the inventory sheets. I do hope that in this we shall be expressing the views of the construction industry at large in Canada.

We in the construction industry do believe that we have, in the last decade, witnessed only the initial development of our country's greatest construction trend. The future development of our industry is of major importance to all of us and, therefore, we





sincerely hope that the result of your hearings will, insofar as our industry is concerned, succeed in cutting a pattern for the future generations of Canadian professional construction men, engineers and artisans.

In submitting this brief to you, opinions are expressed not only on the probable scale of future construction developments and the part which Canadian construction companies should play, but also views on seasonal fluctuations, future construction techniques and materials and other points which may be of interest at this hearing.

Introduction:

Taking the broad view, we might consider that the demand for construction services stems from two principal sources. The first consists of the service which the industry renders to public bodies, industry and commercial institutions requiring new facilities. The second type of demand for construction services is really through the promotion of construction by a company or individual for such buildings later offered either for sale or rent. In this case, it is not uncommon for the construction company to create a demand for its services.

This brief will concern itself only with the first phase in which the construction companies are called upon to provide facilities for others, such as primary and secondary industry, public or commercial undertakings.



The Probable Scale of Future Construction Activity in  
Canada

On the basis of a continuing national policy favouring immigration and trade, the future scale of construction should witness work developing over a wider area of Canada than at present. The volume of work will not only be greater but will also include large projects in a heavier proportion than we have currently experienced.

A highly contributing factor will certainly evolve around the ability of our scientists who are only now embarking on the development of nuclear energy for electrical generation. As this should take place, we would hope within the next three decades to see a Canadian population profitably and continually occupied with more hours of leisure than ever before over a much wider area of our country.

We envisage a great and growing demand for the products of our mines, our oil and gas wells, and our forests. We would believe that Canadians would want to invest more than ever in the future of their country, for we shall see coupled to primary industry in these fields a healthy secondary industry well decentralized and well diversified. These demands will have to be adequately served by the construction forces of the future.

Heavy construction services, termed as such to separate them from building construction activities, will be required for primary industries, mainly in the provinces of Alberta, Saskatchewan and Newfoundland,





as well as the Northwest Territories rather than see them limited, as they are today, to the provinces of British Columbia, Ontario and Quebec.

As we would envisage the future of the construction industry in Canada, a great assortment of construction facilities will be required, if only commencing with adequate dockage for ocean draught shipping in the St. Lawrence Waterway to pipe lines, toll highways and airports in the various provinces from coast to coast.

The Probable Share of Contracts which Canadian Firms are likely to obtain in the Future

Unless the Canadian construction companies enlist the co-operation and confidence of Canadian industry and the co-operation of our universities to teach men construction in more of its phases than is being done today, the chances of Canadian firms obtaining a fair share of the future volume of business in the expanding economy of a growing industrial nation are going to be slim.

Canadian construction companies have come a long way, but there is still a long way to go. No Canadian wants to be a second-class North American, least of all the Canadian contractor who is plagued by more foreign competition than probably the contractor of any other country in the British Commonwealth of Nations today and is doing his utmost to hold his own in domestic business.

To obtain a fair share of business at home, the Canadian construction company will have to



develop more specialists within its industry beginning with those who will thoroughly understand the complexities of the soils on which structures are to be founded to those who will raise structures and assemble the equipment required for the complete chemical or metallurgical processes of heavy industry.

Of course, to do this, the Canadian purchaser will have to develop confidence in Canadian construction firms who in turn will depend more than ever on the teams of engineers educated in our universities.

It may be appropriate at this time to mention that the industry suffers from a disability which it would like to cure, and we would refer to the inequitable duty which now prevails on imported construction plant. There is plant owned by foreign construction companies entering this country today at a duty of one-sixtieth per month of the duty otherwise payable, on the assessed value of this imported plant at the time of entry. The Canadian contractor in competition with a foreign contractor on domestic business generally finds himself at a great disadvantage considering that his plant depreciation can make up as much as one-third the cost of a project.

Another disability, slight as it may appear, has to do with air travel on domestic lines. Quite often we find that it is not possible to obtain air transportation for long trips at the time that the spot decision is made that a visit to a construction





site is of first importance.

Taking a realistic view of these various factors, Canadian construction companies should, in the future, obtain their fair share of domestic business providing that the presently unfavourable factors are removed.

The Probable Effects of New Construction Techniques

The North American pattern of construction is pretty well defined for Canada as it is for our neighbours to the south. We would believe that in the main new techniques will center around mechanized plant and the overcoming of winter conditions.

As to mechanized construction plant, practically all of it has to be imported and generally by the time it arrives in Canada it has been tried out elsewhere. The Canadian operator by no means suffers by comparison with any other operator in his initiative and control of equipment, and we see no reason why this should not continue to be so.

As to the technique of operating under winter conditions, Canadian construction companies are leading the world. We see no reason why this situation should not remain a favourable one for Canadian construction companies. In the case of our Company, we are this winter employing construction men gainfully in nine out of our ten provinces as well as in the Northwest Territories from the 42nd parallel to the north of the 70th and we are experiencing no serious manpower shortages far away from base and difficult as the job may be. You may be astonished



to know that to operate under hard winter conditions and to make a start on a project in an inaccessible site, we will not only drop our heavy equipment, fuel and lubricants by parachute, but we will also drop our men and supplies by parachute.

### The Probable Effect of New Structural Materials in the Construction Industry

New materials have too slowly found their way into the construction industry. We are still building with concrete and steel, brick and stone, tile and wood, paint and plaster, etcetera. However, old materials seem to find their way in new forms. We would visualize that if a strong effort is made to avoid seasonal fluctuations that building construction of the future would find itself in a trend to create off-site employment and certainly improve field production and possibly field costs. Roads and dams, buildings and docks are still built to order, and still have to meet not only field conditions, but also the requirements of the buyer and the critical eye of the designer.

### On Reducing Seasonal Fluctuations

Fluctuations of this kind in the construction industry will certainly be overcome in the future. All that it requires is the team approach between the owner, designer and contractor. To simplify our views in this, let us say that construction which is to take place, for example in the far north, is designed to be constructed in the far north. The same thing can be done for building construction which will take place in our Canadian towns and cities. Canadian construction





companies have proven that they can work in any season of the year, but very definitely today's costs will be minimized in the future by the proper selection of a design and the proper selection of materials to be incorporated into the design. Much more co-operation will be required between the three principal parties than has been evidenced in the past. We believe that where all factors are met squarely at the onset of a project, the industry's overall efficiency could be increased and that such avoidance of seasonal fluctuations would in the overall benefit the industry as a whole.

THE CHAIRMAN: Thank you, Mr. McGowan.

MR. STEWART: On the matter of seasonal fluctuations it is interesting to have this optimistic view but in the cities there is some inevitable cost, is there not, in adjusting to continuous production through the year?

MR. McGOWAN: I missed the question.

MR. STEWART: In the cities, is it possible to even out the activity in the construction business during the year?

MR. McGOWAN: It is if designed to adapt to meet the conditions.

MR. STEWART: Perhaps you could help me if you could give me an illustration.

MR. McGOWAN: Well, for example, if a building could be successfully built in cut stone in the summer time it does not necessarily mean that it could be built successfully in cut stone in the winter



time. Therefore, another material should be investigated that would compare in cost and avoid the penalty of providing a material which is suitable for summer construction and trying to use it in the winter.

MR. STEWART: What about the human material that is working?

MR. MCGOWAN: Well, they freeze.

MR. STEWART: You have put it very squarely up to the universities to turn out more and better equipped engineers for this business. Have you any suggestion that would help us to do this, to meet your needs?

MR. MCGOWAN: Well, we find that engineers have to be trained all over again when they come into construction. Under proper guidance they handle instruments properly in the field and lines and levels are a big thing, but that is not the end of construction. That is only the beginning and we would like to see men trained on the basis of the accounting end of construction. We would like engineers to realize that there is such a thing as accounts in construction. He has to be able to de-cut a little which is very difficult to do with an engineer for the first three years.

THE CHAIRMAN: Do you limit it to three years, Mr. McGowan?

MR. MCGOWAN: Only three years. We like them to know something about accounting because if they are to advance and progress in an organization they have to be conscious of cost and therefore they should know how those costs are arrived at and so on.





MR. STEWART: All my people tell me is that there is no time in four years to put anything else in.

MR. MCGOWAN: Well, possibly our industry should help our universities more than they have, but as we have mentioned in our brief, the Canadian construction companies have come a long way but we still have a long way to go. Do I answer your question?

MR. STEWART: Yes.

MR. GRAUER: At the bottom of page 4 and the top of page 5 where you refer to the "inequitable duty which now prevails on imported construction plant" I just wanted to be sure of how that works. This is the type of plant that the Canadian companies would be importing themselves on which they originally had to pay duty?

MR. MCGOWAN: Yes, the plant that we import ourselves is dutiable at various rates. The same type of plant can be imported by a foreign contractor providing there is no machine of a similar type already in Canada and free to work and the rule is that it is imported at the duty of one-sixtieth of the duty which would be assessed on its value at the time of entry. For example, if it is a piece of equipment worth \$75,000, depreciated \$25,000 so that the duty would be assessed at say 20 percent of \$50,000, it would be \$10,000 and that \$10,000 would be paid over a period of five years at the rate of one percent per month.

MR. GRAUER: Well, if the machine were taken out of the country again at the end of 12 months?



MR. MCGOWAN: The duty ceases. You could say it has remained here for twelve-sixtieths.

MR. GRAUER: And that has a fairly wide-spread effect, has it?

MR. MCGOWAN: Well, it has had this effect, that it has deprived the Canadian construction company from competing successfully on projects of that kind that require a lot of equipment.

MR. GRAUER: But I understood you to say if there was a machine of that type that was available for the job that would not apply?

MR. MCGOWAN: Very seldom is.

MR. GRAUER: On page 7 in talking about seasonal fluctuations you point to a trend as being desirable to create off-site employment. Does that mean allocating the material away from the job?

MR. MCGOWAN: Certain elements, yes.

MR. GRAUER: You think there are good possibilities for that type of thing?

MR. MCGOWAN: I think so.

THE CHAIRMAN: Well, thank you very much, Mr. McGowan. It is nice to see you and we are very grateful to you.

The next submission we will mark Exhibit 159.

I should perhaps explain before my colleagues start asking Mr. Gross too many searching questions about the building materials field, until just a few months ago he was the head of Anglin-Norcross and in the same league as Mr. Piggott and Mr. McGowan.





What did you think of their submissions, Mr. Gross?

MR. GROSS: Very good.

THE CHAIRMAN: Would you care to just begin?

MR. GROSS: I have begun with a brief explanation of Gypsum, Lime and Alabastine Limited because there are a lot of people not familiar with this company.

In response to the invitation to appear before the Commission we present the following information.

1. Gypsum, Lime and Alabastine, Canada, Limited, is a Canadian Company, operated in Canada by Canadians with no affiliations outside of this country. The Company is a producer of non-metallic minerals obtaining limestone and gypsum rock from mines and quarries and processing these and other basic raw materials into a large range of products. These materials and finished products are heavy and bulky in relation to their value consequently the cost of transportation is a major factor in determining the distance they may be economically shipped. For this reason the Company operates 18 plants across Canada, each strategically located as to raw material supply and a market for the goods manufactured. Among the basic products produced are the following: Gyproc plaster boards; plastering materials; Gyproc Mineral Wool Insulation; industrial and building lime; water paints, etcetera.

2. Distribution is made through some



2500 retail builders' supply dealers located in almost every community of any size across Canada. Each dealer is called upon regularly by one of the Company's salesmen. Since its origin in Paris, Ontario, 70 years ago, the Company has continuously expanded to meet the demand of Canadian industry.

3. The invitation requesting an appearance before you expresses a desire on views on the probable development in the building products industry over the next two or three decades, as well as a comparison of the costs of production in the United States and Canada. As Gypsum, Lime and Alabastine, Canada, Limited is a Canadian Company with no affiliations in the United States we are unable to give the comparison requested. We believe, however, that due to the following reasons United States production costs must be lower than Canadian production costs:

(a) Individual United States plants are designed to produce a much larger volume than Canadian plants.

(b) The lower cost of plant equipment and construction in the United States will reduce capital charges.

(c) Fuel costs are lower in the United States and climatic conditions more favourable.

4. The size of future markets for our products in Canada will be more than doubled in the next 25 years. This increase will be brought about by the increase of population and by the rising standard





of living.

5. There will be developments in new construction materials. Improvements being developed by our Research Department in gypsum and lime products will extend their general use. Export of our products has never been a large factor in our business, excepting for a specific product in one area where we anticipate an increasing demand. Based on present dollar values, Capital Expenditures will be made over the next twenty-five years in the amount of thirty million dollars in order to maintain our capacity at a sufficient level to meet the demand.

6. Employment in our industry will be affected by continually rising labour costs and constant efforts are made to mechanize our production in order to maintain the price to the consumer. We believe that the actual number of employees will be maintained as our plants expand, but mechanization will enable us to produce more goods per employee.

These remarks, reply to the points raised in your invitation to appear before you.

THE CHAIRMAN: Thank you, Mr. Gross.

MR. GUSHUE: Just one question, Mr. Gross. I take it the lower labour costs in Canada would offset to some extent (a), (b) and (c) you mention on page 2?

MR. GROSS: I have not the exact figures but the labour costs are only slightly less in Canada. We cannot get the figures but from one plant we are familiar with in the States we were quite surprised to find that their wage rates were not dissimilar to



our own.

THE CHAIRMAN: What material does your company produce and sell?

MR. GROSS: Gypsum products. Gypsum board is used as dry wall construction, as well as lath, for plastering material for plastering a room and industrial lime which goes to paper mills and steel companies.

MR. GUSHUE: Have you got plants in every province? I note you say you have 18 plants across Canada?

MR. GROSS: We have properties but we are not operating them in the Maritimes. We have a plant in Quebec, a plant in Ontario, plants in Manitoba, none in Saskatchewan.

THE CHAIRMAN: Thank you very much.

We have one more submission this afternoon, Mr. Klager of Dominion Woollens and Worsteds Limited. Mr. Klager, we will mark your submission 160 and if you would like to proceed with it.

MR. KLAGER: With your permission, sir, I would like to read the brief and after reading it make two or three comments enlarging on one or two of the statements I have made.

THE CHAIRMAN: Fine.

MR. KLAGER: The Primary Textiles Institute is planning to present a brief to the Royal Commission on Canada's Economic Prospects at the time of your hearing in Montreal in February. That brief will cover the position of the textile industry as a whole,





of which the woollen and worsted industry is an important part.

In view of this I propose to concentrate my remarks on a few of the basic problems faced by the Canadian manufacturers of woollen and worsted cloth. In order to support my remarks I will refer to the operations of Dominion Woollens and Worsteds, Limited, the company with which I am associated. This company belongs to the Woollen and Worsted branch of the Textile Industry.

Our raw material is wool and wool tops, a sterling product bought principally from Great Britain, and synthetic fibres which are primarily of Canadian origin.

Our Mill at Hespeler, Ontario, performs all operations in the manufacture of woollen and worsted cloth, namely; combing, spinning the yarns, weaving, dyeing and finishing the cloth ready for the clothing manufacturer. Hand knitting yarns are also manufactured at that Mill.

Our Mill at Peterborough, Ontario, performs all operations in the manufacture of worsted and other yarns for the weaving and machine knitting trades.

The industry in general, is a complex one, and, in Canada, there are mills that weave cloth only, import or purchase yarn from other mills they may or may not control and have their fabrics dyed and/or finished by other mills which they also may or may not control.

The tendency during the war and the post



war period, up to the time of devaluation of sterling (1949), due to the difficulty of obtaining yarn from other countries, was for weaving mills to install their own worsted spinning equipment. This tendency has been sound, in my opinion, as it is not wise for Canada to depend on imported yarn for the production of cloth.

The next remark I make here, gentlemen, I am speaking in a broad manner.

I believe that one of the biggest problems we, as Canadians, are faced with in the next two or three decades is in overcoming our inferiority complex -- particularly as it applies to the lack of pride we have in the label "Made in Canada".

Ask the Englishmen, the Germans, the Swiss or the Americans about any product they manufacture and without hesitation each will tell you it is the best in the world.!

Why don't we, as Canadians, feel the same way? Is it because many of us unconsciously still think of our country as a "colony", incapable of producing quality manufactured products?

Perhaps the following quotations will indicate the fallacy of this point of view. The National Wool Textile Export Corp. of Bradford sponsored a Wool Textile Mission to the Canadian market and they issued a report in October 1948. They said:

"It would, however, be foolish to become in any way complacent, as the Mission had opportunities of examining





"fancy worsteds, gabardines and tropicals made in Canadian mills, which were really thoroughly good productions as regards quality, style and finish. Nevertheless, the fact that a fabric is of British origin still gives it a definite advantage."

They selected the cloths which are the most difficult to make, on which to base their judgment of Canadian quality; they found they were good, and that theirs were only preferred because they were "British". At another point in their report it is stated:

"We have abundant evidence of the advances which have been made by Canadian woollen and worsted mills, not only as regards quality and finish, but also in attractiveness of design and colouring."

Canadian pride in the label "Made in Canada" can and must be accomplished.

We, as Canadians, are proud of our ability to supply other countries with our agricultural products -- our natural resources -- timber, minerals, etcetera, and rightly so. We know they are the best. But too often we feel the imported label on a manufactured product means a product superior to that manufactured in Canada, with the exception of such articles as cars, refrigerators, stoves, television sets, etcetera. But let us look closely at these exceptions. In many cases they are made by Canadian companies who carry the United States parent company's name and are built to their blueprints, and backed by their advertising.



As we look to the future we feel confident that this lack of pride which we Canadians have towards "Made in Canada" goods, can and must be corrected. The only way this can be achieved is for efficiently operated Canadian mills to be allowed to compete on equal terms with imported products.

Import competition faced by the woollen and worsted branch of the industry is largely from the United Kingdom. I am speaking of woven fabric. In making a comparison of costs of production we must look at the Canadian manufactured cost as against the laid down freight and duty paid cost of the same article manufactured in Great Britain.

Raw material costs for a worsted or woollen fabric are basically the same for Canadian and United Kingdom mills but there is a slight advantage in Great Britain's favour. They have access to a broad spot market for their raw and partly manufactured materials, which, we believe, enables them to make purchases on more favourable terms.

The main problem facing the Canadian industry is the large difference in conversion costs - "Labour and Overhead" - the greater part of which is labour. At this point I must emphasize that from the long-term standpoint, the total difference in conversion costs is directly related to the difference in wage rates per hour. Average hourly wage rates paid in Dominion Woollens and Worsteds, Limited and the average hourly rates paid in other cloth mills in Canada are approximately the same, and, according





to the latest figures available these are  $2\frac{1}{2}$  times greater than those paid per hour in Great Britain. Therefore, if we assume equal productivity in both countries the labour conversion cost of manufacturing cloth in Canada is approximately  $2\frac{1}{2}$  times the cost of manufacturing the same article in Great Britain, as long as this ratio exists.

We further express the opinion that this spread will not narrow unless the value of the pound sterling improves in relation to our dollar.

Overhead or burden expense, as a part of conversion cost, also bears the same approximate relation to the differential in wage rates per hour. While there are slight variations, we can assume that these offset one another. For example, buildings in Canada cost more to construct, to heat and to humidify, because of our climate. On the other hand, in Britain, items such as power and electricity are more costly.

Numerous sets of figures can be produced showing up-to-date cost comparisons, which in turn could become obsolete within a relatively short period due to technological changes, introduction of new equipment, changes in work loads and methods, etcetera. Great Britain and Canada have access to the same, or comparable, automatic equipment. They have access to the same technological knowledge. There are no manufacturing secrets. Any higher productivity that Canada may have through the use of greater percentage of automatic equipment can be



completely lost within the next few years. This again emphasizes that the long range cost comparison must be the hourly wage rate differential.

Let us look at what has happened to hourly wage rates and tariff rates during the period 1939 to 1955.

Average Hourly Earnings - Wool Textiles

	<u>1939</u>		<u>1955</u>		<u>% Increase</u>
	<u>pence</u>	<u>cents</u>	<u>pence</u>	<u>cents</u>	
Canada		33.8		104.6	209%
Great Britain	12.0	23.1	38.0	43.7	89%
E Sterling Exchange Rates Used	\$4.61		\$2.76		

Sources - United Kingdom Ministry of Labour Gazette,  
Dominion Bureau of Statistics.

I would like to draw to your attention the fact that in both cases the wage rates in Canada and Great Britain increased approximately three times but when we apply the exchange rate of \$4.61 which applied in 1939 as against \$2.76 that applies in 1955 we find that the increase in rate in Canada has gone up 209 percent in Canadian funds and in Canadian funds the rate in Great Britain has gone up 89 percent.

During the same period the British preferential tariff rate on wool cloth has dropped from 29 percent in 1939 to about 15 percent, due almost entirely to an out-dated form of tariff structure. Canada with relatively high costs has about the lowest textile tariffs in the world. It is also significant that many other countries have quota and currency restrictions which are additional to



tariffs in controlling imports into their markets. While we are not in favour of placing restrictions on imports, we do ask that we be allowed to compete on equal terms with imported fabrics in our own home market.

The above data indicates why it is impossible today for Canadian mills to manufacture wool cloth at the price the same fabric can be manufactured for in Great Britain and laid down in Canada -- freight and duty paid.

In the case of Dominion Woollens & Worsted's Limited our buildings, while not of the one story modern type, have been well maintained and are satisfactory for economical production.

Basically we are a fancy yarn dye mixture mill. Our equipment has been completely rehabilitated where it suffered from severe stress and strain during the war period (1939-1945) when operated continuously from midnight Sunday to midnight Saturday. To the extent of our resources we have installed the most modern and efficient type of equipment available where economic advantages were apparent from so doing. We have exercised great ingenuity in improvising and adopting new methods and, in fact, developed many of these ourselves. Our capital expenditures during the post war period have not been for the purpose of increasing our overall output but rather for the purpose of improving quality or reducing cost.

The types of woollen and worsted suitings, in a large variety of design and colour, which





constituted our principal production, whether all-wool or blends of wool and synthetics, are those used by the cutting-up trade in the production of clothing for popular use and are equal in quality and design to those imported. We specialized on these fabrics as a result of our success in the prewar and immediate post war periods, supplying our customers with their requirements of standard and exclusive designs, colours or qualities.

In the period 1942 to 1949 (8 years) we made in excess of five million square yards of these exclusive designs for ten of the most important clothing manufacturers in Canada. Following devaluation and as a result of the inadequate tariff structure, this business terminated abruptly. We have been forced out of this market by low-priced imports from the United Kingdom.

In an endeavour to permanently establish ourselves in this field we had a colour and sound film produced, one of the first textile industrials, depicting the process of manufacturing woollen and worsted cloth, from raw wool to the fully manufactured cloth ready for the clothing manufacturer. This was shown from coast to coast to retail clothing outlets, in the years 1946-1947, along with samples of cloth we manufactured. This effort did not correct the situation and to a large extent our fabrics, in suits, continued to be described as "imported."

Our company has been most aggressive in diversifying our end products. We have added to our lines the production of many types of industrial fabrics



and automotive upholstery and have been most diligent in incorporating the new synthetic fibres in these and our apparel lines. Along with other Canadian companies we have jointly exhibited our products from coast to coast in the form of fashion shows and fabric displays. We have tried constantly to find export markets, without success. In spite of these efforts we have only succeeded in replacing a small part of the production we have lost to low cost imports from English mills. This has been a major factor in impairing the financial position of our company.

At December 31, 1948, the position of Dominion Woollens & Worsted, Limited, was as follows:

Earned Surplus Account	\$1,039,518
Working Capital - (After deducting from Inventories the provision of \$1,110,000 that had been made for future decline in Inventory values)	1,261,506

By December 31, 1954, this position had been seriously impaired and was as follows:

Deficit Account	\$ 410,067
Working Capital Deficit	381,836

The serious financial position of the Company is apparent in these figures. That position can be attributed, almost entirely, to:

- (1) Devaluation of the pound sterling in 1949.
- (2) The sharp rise and drastic decline in wool prices in 1950 and 1951.
- (3) The continuing and increasingly severe low cost competition with which we have been faced,





particularly since 1951.

There was a very large and rapid increase in wool prices followed by a severe drop in the primary markets between the end of 1949 and September 1951. This can best be illustrated by taking as an example a typical wool top of 64's quality. The price of this rose from 125 pence per pound at the end of 1949 to 350 pence per pound in March 1951. There was then a very rapid decline of 230 pence per pound down to 120 pence per pound in the same year. The ruinous and far reaching effect of such a decline can be readily seen when it is kept in mind that at the end of 1950 our inventories had a value of \$4,500,000. By the end of 1951 our provision of \$1,110,000 for future decline in inventory values had been entirely exhausted.

In the case of Dominion Woollens & Worsteds, Limited, which performs the whole series of manufacturing operations from the raw wool through to the dyed and finished cloth, inventories were of necessity much larger than those of companies who do not perform all of these operations. Consequently our inventory losses were much larger than for the majority of our competitors, who perform only one or several of the operations that our Company performs.

Repeated attempts have been made by our Company and the Canadian Industry, to permit the establishment of a provision for future inventory price declines on a "deferred tax" basis, knowing that a decline would be inevitable. The attempts were unsuccessful and we were required to pay income taxes totalling



\$369,000 on such provisions which had been made in 1947 and 1948.

Since these losses in inventories were taken, and altogether apart from them, there has been a further worsening of the position both in our own company and in the wool cloth industry at large. We would refer you to the report of the Tariff Board made in February, 1955 on the Wool Cloth Industry. The losses, before income taxes, suffered by the mills studied by the Board (23 in number, I believe) for the years 1951 to 1954 inclusive, amounted to \$5,886,000.

The same Tariff Board report indicates that for the same group of Companies the capital resources were seriously reduced from \$11.9 million to \$5.6 million, or by more than half during the years 1951, 1952 and 1953. It also indicates that there was a further impairment in the year 1954.

The trend of employment at our Hespeler mill and its burling and mending branches has been as follows:

<u>Year</u>	<u>Total</u>
1947 -	1,275
1948 -	1,345
1949 -	1,357
1950 -	1,090
1955 (Dec.)	552

It is important to note that out of those presently employed at our Hespeler Mill, 202 own or are buying their homes.

The 7 burling and mending branches which





were operated by our Company in various towns in Ontario and at times employed as many as 165 persons, have all been closed down.

The large reduction in employment has been brought about by our Company being forced almost entirely out of the fancy dyed mixture business by low cost imports from the United Kingdom.

If the present faulty tariff structure is permitted to continue it is difficult to foresee profitable future operations for the Wool Cloth Branch of the Textile Industry in Canada. For a number of years past, the Canadian government has assumed the role of setting an example to the rest of the world in the freeing of trade and it would appear that in the pursuit of this objective, the domestic Wool Cloth Industry is to be regarded as expandable.

No amount of efficiency and expenditure of money on the part of the Canadian Wool Cloth Industry can permanently overcome the differential between our production costs and the laid down costs in Canada of imports from the United Kingdom. Since the Canadian industry operates in a high cost economy it has been severely squeezed between rising costs of wages and overhead expenses and declining tariff rates.

In your letter asking me to appear before this Commission you suggested I comment on the following:

1. Are relative costs likely to change in the future?
2. Growth of the domestic market.
3. Trend of Canadian and Foreign Wage Rates.





4. Continued technological progress in Canada and other countries.

5. The possibility of the industry improving its competitive position by increased specialization in production and by improvements in the present system of distribution.

These questions have been covered in the brief which will be presented to the Commission by the Primary Textiles Institute. In view of this I do not propose taking up the Commission's time with any further comments on these points.

We believe that our branch of the industry has an essential place in the development of a sound Canadian economy, making, as it does, basic fabrics used by the manufacturers of clothing, also an essential industry.

We have come to the conclusion that under present tariff rates it is impossible to manufacture woollen and worsted fabrics in Canada on a profitable basis and we feel sure that other mills are having a similar experience.

We are therefore turning away as rapidly as possible from this phase of our business to the production of industrial fabrics.

Unless some change in the tariff structure is made, the end result will be that Canada, located in a northern climate, within a few years will be almost wholly dependent upon overseas imports for woollen and worsted fabrics. The serious effect that this will have on the Canadian economy cannot be over-emphasized.



Gentlemen, if you don't mind referring to the brief again, on page 2, the second paragraph. I am not suggesting when I talk about the end products that are made in Canada that all end products should be made. There are articles where the consumption is small and the set-up costs are high and I appreciate that that sort of thing must be imported for the time being. But the bulk of textile products both woollens and worsteds are not in this class. Textile equipment will produce a wide range of fabric, coarse and fine, using synthetics or wool blended with synthetics. I also mention somewhat later on page 3 the effect of the high conversion, quoting a typical example might be the suit I am wearing. It is a 10 ounce worsted. It is made of terylene, 35 percent and wool 65 percent and the cost of manufacturing a yard of this fabric is approximately \$3.05 of which \$1.33 is labour which is 44 percent. Materials are \$1.12, 36 percent, and the overhead 60 cents, 20 percent.

I have made a rather strong statement in there that our problem in the industry is due almost entirely to out-dated forms of tariff structure. Briefly I will outline that. It is covered in greater detail in the Primary brief but in 1935 the compound rates of duty were set on a ceiling of 65 cents per pound which were set at this time to provide the maximum duty on imports of high-priced specialty goods. For example, cloth for the regular apparel trade was selling for approximately \$1.00 per yard at that time. It is estimated that in 1935 not more than 3 percent of imports were subject to the maximum duty. With the





passing of time and due to the increases of raw materials and conversion costs that have taken place, the maximum duty incidentally in 1937 having been reduced to 50 cents per pound instead of 65 cents, this 50 cents per pound has become the effective rate of duty on almost all imports. A provision that was designed for one purpose, 20 years ago, is now serving an entirely different purpose that was never intended. Instead of levying an average rate of duty of 21 percent on all fabrics, low and high price, we are actually averaging 15 percent and on worsted fabrics which happens to be our basic end product at Dominion Woollens it is even lower, even at 21 percent it is low when compared with any other country with a textile industry. Those details will come out in the hearing in Montreal.

Incidentally, my job is running a mill and I know that the tariff is not adequate. I feel that the setting of tariff rates is the responsibility of the government and this required a great deal of study and I am sure that the wool cloth division of the Primary Textile Industry would be pleased to submit their views on this matter if you so desire.

I think possibly I should clarify a point on page 5 where I mention the extent of our resources, in the fourth paragraph. We have installed the most modern and efficient type of equipment. Since 1945 up to date we have spent over \$1 million on buildings, machinery and equipment. Buildings represent \$132,000, machinery and equipment \$924,000. I mention that in case there is a thought in your mind - is the difficulty



due to lack of machinery. Our machinery is fully comparable with mills of a similar type I visited when I was in England in 1948 and 1950. We can compete as far as machinery is concerned. In fact our productivity is on the whole better than English mills. If not, we would not be here today, but it is not sufficiently high to offset the difference in wage rates.

Now, sterling was devalued in 1949. When I was in England in 1950 I spent some time studying the industry and I found that we could take and rent a place in England, take over a designing staff, purchase our raw material in England and then have all processing done of a kind such as we are doing here -- recombining of the top, spinning of the yarn, winding, warping the yarn, weaving the yarn, dyeing and finishing the fabric and we could lay that fabric, an identical fabric that we could make in Hespeler, we could lay that fabric down in Hespeler, freight and duty paid at somewhere between 4 cents and 5 cents a pound less than it cost to manufacture the same article in Hespeler. I know that has been the condition with other mills as well.

The point can be shown that we still retain about 60 percent of the Canadian market. It is a case of retaining that 60 percent where the problem arises. We must compete in the case of fabrics sold in Canada by Great Britain. But we cannot meet that cost as I have mentioned and described. The question could come up in connection with exclusive designs from England. Well, ten hundredweight represents





roughly 600 yards. That is what we would class as a good economical warp. Using  $3\frac{1}{2}$  yards per suit, that would mean from an exclusive standpoint that 170 suits of that type would be made for all of Canada. Now, I do appreciate that there are exclusive patterns that 170 suits in Canada would be too many of, but basically the Canadian industry can give exclusiveness of design.

I might say that no industry can continue to operate at a loss and as no action has been taken by the government to correct this situation in spite of facts having been made abundantly clear, we feel that the possible future of the textile industry looks very grim. I have outlined that as you can see, on page 8: We claim that --

"The domestic wool cloth industry is to be regarded as expendable."

That is in the second last paragraph.

Another very serious aspect, if I might say, of our industry is if and when conditions under which the industry in Britain operates deteriorate, their profit margins shrink up, disappear, the wholesale liquidation of the whole industry in Canada to my mind would occur unless there is an overall upward revision in the tariff structure.

I have carried on at quite a length.

I think possibly I shall stop.

THE CHAIRMAN: Thank you, Mr. Klager.

MR. GRAUER: Mr. Klager, I think you have made your position very clear. This inability to compete because of the fluctuations of the pound and





the increase in wage rates and the abnormally low tariff rates, that extends over the synthetics too, does it?

MR. KLAGER: I can't say that. I am only speaking for the Woollens and Worsteds end of the business. England, as far as we are concerned, do not import a large volume of fancy yarn, dye mixtures and make synthetics in the Woollen and Worsted mills there. There are large quantities that come in but not for the Woollen and Worsted mills.

MR. GRAUER: In industrial fabrics, how large a field is that? Are there great possibilities there for you or is that a restricted field?

MR. KLAGER: It is limited to an extent in that much of the work that we have done is different. We find that by the use of synthetics, for instance, if we were to take dry type top felting or wet felting by the use of synthetics which resist acids and alkalis, the use of these industrial fabrics has been considerably increased, in some cases three or four times over what it was before but the automobile business, we have got a large volume of business from it.

MR. GRAUER: On page 6 you say along with other Canadian companies you exhibited your products from coast to coast and put on fashion shows advertising a fabric for the export market without success. Was that solely because of cost or partly because of the feeling of consumers that the British product has some sort of preference which the Canadian one does not?

MR. KLAGER: In 1946 or 1947 when we had



a colour film with sound taken across Canada, we did that basically to try and overcome the British preference which is always shown for a worsted or in many cases a woollen fabric but I have walked the streets in Montreal and Toronto with our designer and we have looked in window after window and found our fabrics displayed there in suits marked "Manufactured English Worsteds".

THE CHAIRMAN: What did you do about that?

MR. KLAGER: We have spent a lot of money to try to correct that thinking without success.

THE CHAIRMAN: Sales could still be made.

MR. KLAGER: Well, when we had that film taking it around a seller's market, it was not so bad but when it became a buyer's market we then were undersold.

MR. GRAUER: If you are on equal competitive terms you will have a large job of salesmanship?

MR. KLAGER: That is true. The British mills are spending large amounts of money advertising their products. The Dominion Woollens, we have not money now to spend in that manner. The industry is not a large industry as it originally was. It is shrinking. I believe there are some 23 mills have closed and there are others where there is a question of whether they will continue or not.

MR. GRAUER: On page 1 you refer to the "tendency during the war and post war period up to the time of devaluation of the pound (1949) due to the difficulty of obtaining yarn from other countries, was for weaving mills to install their own worsted spinning equipment. This tendency has been sound, in my opinion,





as it is not wise for Canada to depend on imported yarn for the production of cloth." Your opinion there is based upon insecurity of supply?

MR. KLAGER: Yes, during the war, for instance, it was impossible to import not only yarns in the quantity required but also top. Now, top in the worsted business is wool that has been washed, it has been carded and combed to comb out the short fibres and vegetable matter and it was essential in order to keep the industry operating to have an additional plant, other than our own, which was built at Acton.

Due to the fact that we were a vertical mill, for instance and I know there are advantages and disadvantages in vertical setting, the fact that we were a vertical mill during the war meant that we were able to produce each week sufficient 31 drab khaki to completely outfit one division, approximately 45 to 50 thousand yards. Unless you have your own spinning, unless an industry can be self-contained at times like that you are in serious trouble.

MR. GUSHUE: Mr. Klager, you referred to a report of the Tariff Commission, I think, in February 1955?

MR. KLAGER: Yes.

MR. GUSHUE: Was that investigation made at the request of the industry or how did that report come about?

MR. KLAGER: The industry took before -- if I might, Mr. Jack Armstrong, who is the manager of the Primary Textile Institute is in the office. He



worked with that right through and I think possibly he could answer that more clearly than I could, sir.

MR. ARMSTRONG: That was at the request of the Minister of Finance.

MR. GUSHUE: Was it a purely factual report or did it lead to any conclusion?

MR. ARMSTRONG: There was a factual report presented but no conclusions.

MR. GUSHUE: And you have heard nothing of it since?

MR. ARMSTRONG: That is right.

THE CHAIRMAN: Well, thank you very much, Mr. Klager. As you suggest, we will probably hear a little more about the textile industry when we get to Montreal.

MR. KLAGER: Yes, in much greater detail and we appreciate the opportunity of presenting our information at this time.

THE CHAIRMAN: Thank you very much. We will adjourn until tomorrow morning at ten o'clock.

(At 5:00 P.M. the Commission adjourned until 10:00 A.M.  
Wednesday, 1st February, 1956)



ROYAL COMMISSION

ON

CANADA'S ECONOMIC PROSPECTS

HEARINGS

HELD AT

TORONTO, ONT.

FEBRUARY 1, 1956

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TORONTO, ONTARIO,  
Wednesday, 1st February, 1956

APPEARANCES:

Mr. H. Turner, Chairman of General Electric and President of Canadian Electrical Manufacturers Association.  
Mr. B. Napier Simpson, General Manager,  
Mr. W. Loughheed, Economist,  
Mr. F. G. Samis, Northern Electric,  
Mr. R. S. Sichloff, Canadian General Electric,  
Mr. T. J. Bell, Fiberglass Canada.

Mr. J. G. Goss, President, Canadian General Electric Company Limited.

Mr. J. M. Thompson, Vice-President and Comptroller, Canadian Westinghouse Company.  
Mr. McBain, Assistant to President.  
Mr. Kerr,  
Mr. Leyland.

Mr. O. W. Titus, Vice-President and General Manager, Canada Wire & Cable Company Ltd.,  
Mr. E. G. Fraser, Market Research Dept.

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THE CHAIRMAN: I think we might come to order, gentlemen. Mr. Turner kept one of the members of our Commission out late last night. He thought he had some questions that he might ask, knowing something about the industry from the other end. We hope you didn't do him in for keeps.

Well, you were good enough to give us your submission some time ago so we have had an opportunity of reading it and studying it. We will label it Exhibit 161.

If you would like to start and present this. You are going to present a summary this morning, are you?

MR. TURNER: Yes, Mr. Chairman. You have the submission and I understand that that



submission is perhaps supported or backed by an earlier analysis that was prepared by Professor Knox which I presume will be documented with our submission and as I understand from our General Manager he will have also a copy of the synopsis of the submission which I propose to read. I was instructed by the General Manager that I should not skip anything inasmuch as copies of this synopsis had been supplied to the Commission and I should not change a word of it. So I will start with the second paragraph.

THE CHAIRMAN: You are properly under control this morning.

MR. TURNER: The electrical manufacturing industry differs to a great extent from many other Canadian industries, such as iron and steel, pulp and paper and the chemical and oil industries. It cannot be compared properly with these integrated industries. With a few notable exceptions, it is made up of a large number of small to medium-sized companies producing some particular kind of apparatus or component.

The various end-products of the industry have one thing in common; they pertain to the use of electrical energy. Otherwise it would be a wide stretch to include in the same industry manufacturers making huge waterwheel generators and others making, for example, miniature tubes for television sets.

This is pre-eminently the electrical age, in the home as well as in industry. In this electrical age Canada stands out as one of the most favoured nations of the world, with vast resources of waterpower, oil,





coal, natural gas and uranium. Measured per capita, Canadians lead the world in the consumption of electricity, using approximately half as much again as the Americans, and over three times as much as the British.

With electrical consumption increasing in Canada at a rate of 6 percent per year since the end of the Second World War, there has been a vast new construction of generating facilities. With the projects now underway, or planned, for the next three years, we are reasonably assured of the doubling of Canada's generating capacity in the decade 1948-1958. It is the expectation, based on the many serious studies made of this subject, that the demand for electrical power in this country will double in the decade immediately ahead of us and quadruple in the coming quarter of a century. Much of the new generating capacity -- particularly in Ontario -- will be thermal. That is, it will be fired by coal, oil, natural gas or atomic fuel. The electrical manufacturing industry expects to participate to the full in this development, but this will require considerable new capital investment.

The industry has developed to the point where it can produce almost all the electrical products required in this country. And not only that, the electrical industry has served as a training school for thousands of men who have learned how to make and to service electrical equipment and have carried this knowledge with them into other industries using such equipment. Had these technicians not been available



in Canada, a few might have been brought in with imported electrical apparatus, but certainly Canada would not have been industrialized so rapidly.

The rate of production of electrical goods, as the submission points out, has increased somewhat more rapidly than the Gross National Product. Looking back a quarter of a century, and in terms of the "dollars of the day", the output of electrical goods has increased eight times while the Gross National Product has slightly more than quadrupled. Employment in the electrical manufacturing industry has increased during this period by three and a half times, while employment in all Canadian manufacturing industry has not quite doubled. With 75,000 employees at present, the industry now has a wage bill of over a quarter of a billion dollars a year.

The electrical manufacturing industry is more than just another fabricating industry. It may be claimed, without exaggeration, that no other industry is more vital to this country if we are to improve our place among the leading industrial nations of the world. Through the development of the processes of automation, the industry holds the key to increasing productivity in Canada and hence to Canada's ability to improve its competitive position in world markets.

Automation, in principle, is not a revolutionary concept as some may believe, or even fear. It is but a logical step in the evolution of manufacture from the job shop, through progressive line manufacture, to conveyORIZED manufacture. Its





ultimate objective is to link together whole processes, from the extraction of raw materials to the finishing of products. Outstanding examples of automation are the petroleum and the chemical industries. But one which comes closer to the average person, in the form of the mysteriously punched Family Allowance cheques, is the enormous development in automatic office equipment.

Some fear has been expressed, as it has been from the very beginning of the Industrial Revolution nearly 200 years ago, that this latest technological advance will cause unemployment. Perhaps a specific example will provide the best answer to this. It has been estimated that if the modern automobile were made in a job shop, as the early cars were, it would cost \$100,000 instead of \$3,000, as it does today. Obviously the automobile industry would be very small in such a case. Instead it has become a giant industry, employing millions from factory to service station. Indeed, it is in the industries that have gone the furthest in automation, and in the industries which supply the equipment for automation, that employment is rising the fastest.

Employment in the electrical manufacturing industry itself has almost quadrupled since the outbreak of World War II, rising from 20,000 in the year 1939 to 75,000 today. The total average rise in hourly wage rates in the electrical manufacturing industry in Canada during the period 1938-1952 is of the order of 225 per cent, while in the same industry in the





United States, the rise during this period has been approximately 168 percent. The submission notes in some detail the rise in imports from the United States which this development has helped to bring about. The handicap we face from British and German electrical manufacturers is even greater. Wages in the British electrical manufacturing industry rose by only 103 per cent in the period 1938-52; those in West Germany by a mere 19 percent.

The greater rise in the earnings of Canadian electrical workers as compared to those of United States electrical workers well may be offset in time by either increased productivity in Canada or a lower exchange rate for the Canadian dollar. Increased productivity requires, of course, constant new investment in machinery and equipment. In our industry, since the war, this has amounted to \$3,040 per employee, as against \$3,206 in the U.S. electrical manufacturing industry. Moreover, the competing industry in the United States has the advantage of being 15 times larger in number of employees and 20 times larger in net value of output. The less-automated U.K. electrical industry is about nine to ten times larger in number of employees but only three times greater in net value of output.

The submission deals in brief compass with government policies, developed over the years, which appear to favour the primary or extractive industries over the secondary or manufacturing industries. Primary industries such as pulp and paper



or aluminum smelting enjoy a great advantage in operating in Canada because of the availability here of large quantities of low-cost electricity. Together they consume nearly two-thirds of all the electrical energy used in manufacturing in Canada. As against the great advantage these primary industries enjoy in Canada, the secondary industries are caught in the jaws of competition between U.S. industry, with its vastly greater volume of production and lower unit of cost, and European industry, with its much lower wage levels and devalued currencies.

In this situation the import competition which the electrical manufacturing industry faces is the most severe in its history - as analyzed in the Knox Report on the industry (1955). This has increased in most lines of electrical goods. In all, imports have risen from 18.1 percent of the gross value of Canadian output of the electrical manufacturing industry in 1950 to an estimated 29.2 percent in 1955. United States competition is felt most keenly in appliances and mass produced goods: overseas competition is strongest in heavy apparatus and products having a relatively high labour content, and in a wide range of communications equipment enjoying duty-free entry into Canada under British Empire preference agreements.

As an outstanding example, there is the importation of domestic refrigerators. As recently as 1949, 206,000 units were made in Canada and a bare 600 imported. (This was, of course, in the days of import restrictions, imposed to conserve U.S. funds).





In 1950, with a great increase in production here, 341,000 units were sold in Canada and only 11,000 imported. By 1953, however, domestic sales had fallen off to 276,000 while nearly as many -- 220,000 -- were brought in from the U.S. Over this period 1949-53 imports of all major appliances rose from 15.3 percent of the Canadian output to 36 percent.

In face of this competition certain Canadian manufacturers have reduced the prices of some household appliances to the point where they are produced without profit, or even at a loss. It has been the same in heavy industrial equipment, such as waterwheel generators, a field in which British and West European competitors have successfully out-bid Canadian manufacturers in many cases.

The success of outside competitors in entering the Canadian electrical market recently has been due to many factors acting in conjunction; the devaluation of sterling, the West German policy of holding down both wages and prices, tariff concessions made under GATT, and the premium on the Canadian dollar. Besides bringing heavy import competition, this unfavourable movement against the Canadian manufacturer has virtually priced him out of the export markets otherwise available.

In the matter of government trade policy it is acknowledged that the electrical manufacturing industry, in common with practically all other secondary industries in Canada, has long received, developed under, and been dependent on, a moderate



level of tariff protection. Because of such protection a high Canadian content is encouraged in electrical manufacturing. What would otherwise be more or less an assembly of foreign-made components has developed to the point where the major part of most Canadian electrical products is made in Canada, of Canadian materials and parts, and with Canadian labour. Undoubtedly the establishment of branch plants in Canada under a protective tariff policy has greatly speeded up the industrialization of our country and brought a higher standard of living more quickly than otherwise would have been the case.

But the tariff protection which fostered this industry has been reduced, through the British Preference introduced in the thirties and the GATT policy of recent years, to the lowest level of this century. If, as is assumed, full employment or high level employment remains a major objective of the government policy, it is the secondary and not the primary industries which must provide the greater part of it. Given the level of living which people have come to expect -- for they have already experienced it, it is the manufacturing and service industries rather than the primary and extractive industries which can provide the kind and volume of employment necessary to an expanding labour force.

No attempt was made in the submission to draw a line between primary and secondary industry, as some have done elsewhere. The real issue is how best to establish a diversified economic structure





in Canada. While we Canadians continue to seek markets for some of our raw materials and primary products, our own market for manufactured products is open to anyone. On the other hand, our processed goods are not able to enter foreign markets on the same basis as foreign producers enter ours.

The industry is not seeking protection per se: Rather, it is suggesting that if a high level of employment is a desirable objective, then secondary industry must provide it. This will require continuing capital investment, which in turn will require assurance on the part of the government that the interests of the secondary manufacturers will not be bargained away in order to move out of the country increased quantities of unprocessed resources. It must not be taken for granted that secondary industry will grow and flourish under any and all trade and tariff conditions imposed by the government.

A further Industry difficulty results from the administration of the Combines Investigation Act. The Canadian Electrical Manufacturers Association believes that it is possible to have both "good" and "bad" combinations, and that legislation and administration should be designed to ban only the "bad". It is also suggested that the Combines Investigation procedures be removed from the field of criminal legislation and placed under the jurisdiction of Trade and Commerce. Such a move, it is believed, could change the apparent antagonism of government and business in this field to co-operation in the public interest.





### Outlook and prospects

The Canadian electrical manufacturing industry is looking forward to an expansion in the next quarter-century which should dwarf anything it has experienced in the past, always providing that the economic climate is favourable. At the time when the country itself is growing, great new developments are promised in the electrical field; and both these trends are backed by the assurance of a continued supply of cheap electrical power.

The details of the country's future power supply will no doubt be provided by spokesmen of the utilities. But it may be stressed here that Canada still has large reserves of usable hydro power; and that hydro power promises to remain the cheapest source of electricity for the foreseeable future. In the Maritimes and on the Prairies, and notably in the industrial province of Ontario, where the available hydro power has been largely used up, the development of thermal power is well under way. Coal will be used increasingly for some years, although in plants incomparably more efficient than those of a generation ago. But the advent of atomic electricity is signalled by the Nuclear Power Demonstrator project at Des Joachims, now in preparation. Canadian General Electric Company has joined in this venture with Atomic Energy of Canada and the Ontario Hydroelectric Power Commission.

Scientists and engineers are careful to point out that the problems in the thermo-nuclear



field are very difficult indeed, yet we may be sure there will be great advances in the techniques of atomic power production and it may be accepted that full-scale atomic power stations will provide, in the next decade, electricity at rates comparable with those achieved from coal, oil or gas.

There is scarcely any prediction on which more people have been wrong more often than estimating the future population of this country. But it is at least a fact that it is now close to 16 millions, and has increased by 14 percent in the past five years. It will continue to grow for the foreseeable future, and with this we will require more and more new houses every year, more schools, stores, warehouses and factories. The railways will continue their broad programme of re-equipment; more oil and gas pipelines will be built; more and better roads will be constructed. Everywhere investment in machinery and equipment will be spurred by technological improvements.

Increasing urbanization will mean more intensive electrification, more appliances in the home, more need for electric service, street lights and transportation. This promises to maintain the recent heavy rise in home use of electricity, which has been increasing by  $12\frac{1}{2}$  percent per year in recent years, and consumer purchases of electrical goods, which have reached 40 percent of the industry's production.

Though Canadian homes use considerably





more electricity than do American homes, they can only be considered one-quarter electrified today. Exclusive of heating, a fully electrified home would take some 12,000 kilowatt hours per year. Providing adequate wiring for all this will, in itself, become a major task. Air conditioning is due for great development, as is the heat pump, for heating in winter and cooling in summer.

The tiny transistor will bring in portable television, and the first real pocket radio, which could become as indispensable as the wrist watch. We look for the development of the light amplifier and the use of magnetic tape instead of film for movie projection. Many minor wonders, such as the semi-conductors, new magnetic materials and new insulations are now being put into use. Great new industries to produce the "wonder" metals, titanium and zirconium, will be developed. They will need a great deal of electrical equipment and will be heavy current consumers.

The projected quadrupling of Canada's electric power generation in the next quarter century -- as envisaged by Dr. Richard Hearn of Ontario Hydro -- will call for vast quantities of generating and transmitting equipment. Looking beyond that, and beyond "conventional" atomic power, to the taming of the hydrogen reaction, the best guess of some engineers is that this will be done by use of an electrostatic or electromagnetic field -- more electrical equipment, and more electrical power!



In other fields, the development of the long-distance dial telephone is calling for a great deal of new equipment, as is the growing use of microwave stations and relays and radar beacons. And in our automobiles the amount of electrical equipment is increasing steadily, until it promises soon to cost more than the engine.

The importance of the Canadian electrical manufacturing industry to the security of the country has become more and more obvious as planes, ships and tanks are more heavily loaded with electronic equipment, and as the three radar warning lines are extended across the north of this continent. The making of such equipment requires flexible manufacturing capacity and an unusually large engineering staff. The preservation of the design and engineering teams, which require work to maintain their skills, is one of the most critical problems in national defence.

In facing the future and preparing to meet its challenge, the Canadian electrical manufacturing industry is aware that it must, itself, adopt policies and take steps which will further its growth. It must carry on a greatly extended programme of Canadian research and development. It must push ahead with new methods to increase productivity, lower costs and improve quality. It must adopt more aggressive policies in marketing, financing, expansion and export.

However, there are concomitant steps which should be taken by the Nation and the Government, to provide a favourable climate for development. The policy





of favouring the extractive industries should be modified in line with the fact that the Canadian economy has become increasingly a manufacturing rather than an extractive economy. A re-examination of the Combines Investigation Act is needed in the public interest.

In the broader field of education it is vital that the nation's universities be encouraged to educate more and better young scientists and engineers; and more technological institutes should be founded to prepare technicians of less than university rank. Pressing as it does so closely on the heels of science, the electrical manufacturing industry needs an enlarged supply of technically trained people perhaps more than any other industry. The industries cannot count on securing as many technically trained people from abroad as has been done in recent years. On the contrary, the removal of the threat of the U.S. armed forces draft may revive the outflow of young Canadian engineers, attracted by higher pay and wider opportunities in the U.S.

In the area of technical personnel Canada will be engaged in a real struggle with other industrial nations. We will have to rely upon ourselves and work together. Industry must resist the temptation to raid university staffs; rather it must help the universities to keep their staffs by making more use of professors as consultants, by providing summer work and by development and research problems.

Against the graduation of 1500 engineering





students in 1955 and an expected 1800-odd in 1956 there stands the annual need of Canadian industry for 2500 to 3000 a year. Even the lower of these figures may not be attained until 1958. Clearly there must be either new facilities added for training engineers or greater use made of existing facilities. It is noted in the submission that some American universities now divide their classes into two groups, one of which is working in industry, gaining practical experience half the year, while the other is studying. It is suggested that Canadian universities explore this means of utilizing their present facilities twelve months of the year.

In making suggestions at this time, it is the sincere belief that the electrical manufacturing industry is the key to Canada's future development. Without it, the country could hardly have become industrialized to the present degree. Without a healthy and expanding electrical manufacturing industry other manufacturing industry cannot develop to the optimum. And without manufacturing industry Canada's whole standard of living is at stake.

All of which is respectfully submitted.

THE CHAIRMAN: Thank you very much, Mr. Turner. I think it is appropriate that Mr. Grauer ask the questions this morning.

MR. GRAUER: I will ask a few anyhow. I wanted to be sure that I had the Association's views right on the question of tariff and foreign competition generally. I notice one of the chapters is entitled



"The New Competition". As I understand the recommendation there is a combination of circumstances such as devaluation of the pound sterling, a lowering of tariffs under GATT arrangement and a drawing apart between Canada and the Western European countries and the United Kingdom with respect to wage rates and it is that sort of a combination that is putting the electrical industry in the somewhat difficult position it finds itself. Now, if we can just lay aside these circumstances that are causing some difficulty perhaps with respect to other countries, particularly Western Europe and the United Kingdom, would you say that the efficiency of the Canadian electrical manufacturing industry is improving by comparison with them or what is the situation there?

MR. TURNER: In comparison with whom?

MR. GRAUER: By comparison with Western Europe and the United Kingdom. What is in my mind is, the automobile industry here yesterday gave figures which seem to prove that with respect to the United States they were closing the gap, had closed it by some 50 percent over the early '30's. Is there some such trend going on in the electrical manufacturing industry or are you staying about the same or are you losing your position from an efficiency point of view?

MR. TURNER: I think it must be stated that as in the automobile industry this broad term we are discussing is a very broad term if you would call it efficiency but with the increase in volume of business that we are enjoying we are continually closing the gap between the mass manufacturer and





ourselves. I think although the European and British manufacturer is making very definite improvement in their methods within their own shops I don't think there is any doubt but what we are holding our own as against improving means as an electrical industry.

MR. GRAUER: It seemed to me there was an implication in the submission that the present national policy favoured the extractive industries. I think that was stated on page 14. I am not so sure that that is the situation. There seems to be a combination of circumstances which work aside from tariff policy and it is that combination that seems to be causing the difficulty. But at any rate, as far as tariffs are concerned the position seems to be that this industry and others were more highly protected not so long ago and the trend has been downward. So far as the extractive industries are concerned the question seems to be whether some restoration of the position which was formerly held in order to meet this combination of circumstances as you describe, cannot be done without penalty to the extractive industries whatsoever. In other words, there seems to be something of that type in the submission and I wondered if it existed.

MR. TURNER: At the present time the Association is not asking for any increase in tariff rates over the various classifications. Over the long years I think with the Customs Office we have worked out classifications and have been ably represented and graciously received and our demands



where logical have been granted. I think we are perhaps conscious of the difference between the secondary manufacturing problem and the extractive industry. The closer you get to natural resources and therefore to the extraction of those resources and as you analyze it, it might need a thesis from somebody rather than a few remarks from me, but there is equipment imported for them duty free, there are concessions made to them that lead to development. Sometimes there is a little assurance given them that prices will be maintained whereas we have to go out and contend with one another for a level of prices and I think it is in that area of preferential treatment that we feel very conscious of this difference in our problem and theirs.

MR. GRAUER: I was not clear just what the submission was asking for if anything?

MR. TURNER: Not asking for a thing as far as customs valuation is concerned other than we would like the Tariff Act to be administered in all its phases including the valuation for dumping which we realize is a terrific administration staff problem on the part of the government to verify those values in the country of origin but the Act in itself and the terms of the Act we think are satisfactory.

MR. GRAUER: Are you asking for similar treatment to the extractive industries under the headings which you call preferential?

MR. TURNER: I don't think we are asking for a thing.





MR. GRAUER: Then with respect to dumping I think that you do feel it is a short cycle competition from electrical manufacturers of other countries depending upon the state of world demand. If it is strong they don't come into the Canadian market much and if it is weak they tend to ship here below cost. Is that the reason?

MR. TURNER: I would like our general manager to answer that, if I may. I think he has got a couple of paragraphs that that question justifies.

MR. SIMPSON: I had not expected to be called on but I think -- Mr. Grauer, I would like to make one statement here. You questioned the policy of the government. This would be the extractive industries and secondary manufacturing. I don't think this is any secret. It has been said to us many times in discussing these things with different levels of government and on one occasion less than a year ago, an Assistant Deputy Minister who is well qualified to know, made this statement to us, that we might as well be resigned to the fact that it was government policy to dispose of our primary products, our grain and so on, and take back on balance manufactured goods from other countries which was very vital and very necessary and that was their policy. So I think that very possibly answers your first question.

There was the question of changes under GATT which affected tariffs. We are not quarreling with the tariff levels as such but in 1947 at GATT





the customs regulations were weakened in several regards, first as to fair market value from the country of origin and Bill 410 passed last year, if administered, would correct that. There is in the new Act section 65 which would correct it too but it is unregulated too. That was delayed. That has resulted in overseas manufacturers in low wage rate areas laying down goods here at a price that because of their low labour content was in some cases less than our factory cost and this has been pointed out in argument with the different government officials. They say: "We don't know what you are complaining about. Your sales have gone up continuously". And they have. But these last few weeks has seen the price set for the import of mass-produced goods from the United States at very low levels and for the imports of heavy apparatus from low wage rate areas overseas which the Canadian manufacturer had to meet and in an attempt to meet these figures he has taken that at prices which show no profit whatever. You will notice from the figures as given that the rate of profit in relation to percentage of sales has dropped year after year. In fact, on the last record the most drastic drop was from 4.29 to 2.6 which is terrible. We have not been able yet to get the figure for 1955. In other words, in order to maintain employment in the industry it was necessary for Canadian electrical manufacturers to take these contracts and this business at very, very low levels.

I think while the volume of imports is



high -- and it is a fact -- the main factor is the very exceptional price which has had to be met.

MR. GRAUER: Have you been getting pressure from foreign countries?

MR. SIMPSON: The pressure is always there because on the heavy equipment there are always tenders put in from the United Kingdom and also European countries and as I say, in many cases, that is at or below our factory cost. So it is a question of dropping your prices down in an attempt to meet that competition. Of course there is the possibility that if we ever get into another war, which God forbid, that Canadian manufacturers would require not only to provide equipment but to service the foreign equipment which has been installed in this country.

MR. GRAUER: Yes, I noticed that point, but is it evidence -- reference has been made to dumping. Is there evidence that foreign companies do sell here below cost or at unreasonable profit ratio?

MR. SIMPSON: It is one of those things which is almost impossible to get at. What we call dumping, by strict definition of the Act I don't think you would call dumping. I would not prefer to think that it is but it comes in that category. You see, much of this stuff when you have heavy electrical apparatus and equipment there are no such applications in Britain, for example, of the heavy apparatus and equipment we use here. They are different applications altogether and that, I believe, will apply in other fields. It might possibly apply to heavy electric cable.





There are certain fields in which I do think we require some tariffs. They have not been asked for as yet but in the communications field there are certain things entering from Britain. There was a ruling several years ago that they entered free but there are many Canadian manufacturers who have a large volume of such equipment and no change has ever been made but that is something which is in transition. It may be necessary under those circumstances now that those things are made in volume in Canada to increase that protection.

MR. GRAUER: Then, would convertibility of currency be of assistance to your industry? You make reference to the exchange situation.

MR. TURNER: It would certainly have a stabilizing effect.

MR. GRAUER: But the main point is that you are not asking for any increased tariffs but you say in the administration of the Customs legislation and the tariff legislation there might be means in the administration, if I get your point right?

MR. SIMPSON: I think they would be very loathe to apply dumping against the British and it is quite understandable in the position they have been in but at the same time you can't lose sight of the fact that it sets a yardstick on the price.

MR. TURNER: That is, the regulations of today.

MR. GRAUER: Well, if I read the statement at the bottom of page 5 where you say:

"Moreover, the competing industry in the



"United States has the advantage of being  
15 times larger in number of employees  
and 20 times larger in value of output"

it means that the Canadian industry is sort of betwixt  
and between. You don't have the productivity per man  
hour that the Americans do with their much larger market  
for offsetting the higher wage rates.

MR. TURNER: I think if you read one or two of  
the manufacturers' submissions that you are going to  
listen to this morning -- and I think I had one of them --  
you will find a very clear example of the effect of that  
as it applies to an individual manufacturer.

MR. GRAUER: This will throw some light on that?

MR. TURNER: Yes, as it applies to an individual  
manufacturer.

MR. GRAUER: Thank you very much.

THE CHAIRMAN: Mr. Turner, this is a question we  
asked Dr. Hearn the other day. I would like to have your  
views on it. Do you think that there will be development  
in high voltage long range transmission lines within the  
foreseeable future which would make it possible to use  
hydro power from Hamilton Falls in Eastern Canada?

MR. TURNER: That stretch of mileage -- I don't  
know how Dr. Hearn expressed it to you but the way I see  
that is not quite so much of how you are going to transmit  
from Hamilton Falls to Hamilton, Ontario as you are in  
the linkage which seems to be linked up between the  
utilization and the Eastern part of Canada. They can link  
together in converting for use and I think that probably  
that transition is going to come about.





THE CHAIRMAN: I would like your view on another subject. There are one or two other cases where people have explained or given their views when we have asked them about research in Canada to the extent that the companies in question have very substantial affiliated companies or parent companies in the United Kingdom or the United States and that it is a great advantage to Canadian industry to be able to call on the research facilities and the research work that is being done in the much larger organizations in the United Kingdom or the United States and that this country has benefited immeasurably from those research developments and it has been suggested that it would be foolish for us in Canada to try and duplicate that kind of research work. And that really it is not feasible for the Canadian companies to do so on the kind of scale that would produce the same result. It would add so much to the cost of Canadian production that it would make it impossible that way and also as we all know, we are short of scientists, engineers and technicians in this country and that again would have a limiting result. Would you have any comments to make as far as your own company or industry is concerned?

MR. TURNER: I can give you a very brief answer to that if we will all understand that when we are talking about research we are using a broad term. I think one of the most imperative needs for encouraging research or application<sup>of</sup>/engineering within the individual manufacturing company is in the matter of training manpower and its application to very specific problems. Now,





I repeat that. I think the most important reason for encouraging research in an individual manufacturing company is that training that people get through that effort. On the other hand, I think that research is a commodity in its broad term. It is something we buy as we buy materials and I think we have got to buy it. It is an educational theme that we buy either in Europe or in the United States or wherever we can buy it and I don't think we have been in the past as individual companies, large enough in our economic strength to support the magnitude of equipment and materials that are required to maintain a thoroughgoing research staff. Our industries are growing and I think that we will find that these individual companies will tell you that with their own co-operation we are working in that direction as our economic strength increases. But I like to think of it from those two angles, -- do all we can do in training men who are useful to us and who are continuing to work with us and the fact that research is a commodity.

THE CHAIRMAN: Thank you. I have only one other question on the subject of education. You suggested that in order to make full use of existing facilities that courses might be split six months a year academic training and six months of the year in industry. I don't know whether you meant we would split up the professors to make them work all the year around or not, but you did say that industry should refrain from raiding university staffs. One of the members of this Commission the other day remarked that he had found it necessary to leave the hurly-burly of academic life for the peace and quiet of



business not very long ago. I don't know whether it is fair to say of all other professors that they should have the same opportunity.

MR. TURNER: Well, I think that is a philosophy or conventional way of life we have assumed on this continent perhaps from economic reasons or our own main design by comparison with European countries where industry in particular is attempting to get those men back -- not get them back, they are in the universities and are being utilized in those universities by industry. I think we could do more on this continent and perhaps it could be encouraged by finding part-time forces which are generally heavier in the United States industrial area. The problem is not the providing and buying of buildings. It is the re-arranging of the staff of the universities so that they can be used that way, but it is a real problem in an industry of this kind. We have got to take work to these universities and I presume we will be expected to arrange some monetary basis of remuneration for these things so that it will encourage them. I think it is a little more than academic. I know Mr. Grauer will say as one of those fellows that transits from the industry to the academic life that as a pattern it is not necessary for one man to go that way and stay that way.

MR. CHAIRMAN: I will speak to Sydney Smith.

MR. STEWART: One of the reasons that we have our particular unit all year in all Canadian universities and particularly in the west is the





seasonality of employment and our expectation in this country that students provide to a certain extent for their own university training. One of the basic difficulties which I think your plan would suggest would be that it would require some co-operation with industry to see that these people could get off at certain times and keep adequately financed.

MR. TURNER: You will notice that in this submission we did not say that the universities should do this or that. We said that industry should do this in conjunction with them. So it means we have to work hand in hand with you in order to get these things arranged. But it is our "must". Maybe you can live peacefully with me but we have trouble in staying level.

MR. STEWART: I appreciate your co-operation very much. I have one other question which I will apologize for in advance but on page 63 of your brief you give two estimates of the potential use of energy in the home, one by a Canadian industrialist, Dr. A. E. Grauer and an American estimate by Ralph J. Cordiner. I notice the American estimate is twice as big as the Canadian industrialist's. Could this be taken as an indication of the conservativeness of the Canadian industrialist?

MR. TURNER: Well, you have got to figure out who is out trying to raise some money to finance a utility and maybe one of these fellows is doing that and the other fellow is doing something else but it must be recognized that we have different uses. We use



electricity a little differently in our homes. Maybe that will change but we heat water by electricity in this country, we do our cooking by electricity to a larger extent than the American homes. They are more gaseous than we are which goes back to your point.

MR. GRAUER: I notice on page 12 of your submission you use Canadian rates so I assume that will be more applicable.

MR. TURNER: We bow to you.

MR. GUSHUE: Mr. Turner, I would like to revert to the field of questioning which was pursued to some extent by Mr. Grauer. You made it very clear that the industry is not suggesting any specific action with regard to tariffs and so on but I think you do inject a note of caution on page 9 which I would like to read in which you say:

"It must not be taken for granted that secondary industry will grow and flourish under any and all trade and tariff conditions imposed by the government."

Now, that is a very broad, sweeping sort of statement and it may mean no tariffs or higher tariffs or other expedients. Could you project 10 or 25 years ahead and give what might be called further and detailed particulars of your general statement?

MR. TURNER: If you permit me I would prefer to answer that as a non-technician in the field. We have in this room connected with our industry, some expert technicians in the field of customs tariffs and their causes and effects. We thought from





the standpoint of this Commission that we would like you to understand that we have been working year after year and we are continuing to work with the federal authorities that are dealing in this area in the intricacies of customs tariffs. We are a compact body and represent a broad line of products so it is most difficult to do otherwise than generalize, I think, and so if we work logically and intelligently with the proper authorities letting them know what our problem is with intelligent understanding from them on the many lines that we manufacture -- we have thousands and thousands of products in our industry -- I feel quite comfortable in their understanding of our problem, so we think as individual cases develop, it may be that American manufacturers may find a way of developing and producing a product, as they do invariably, very cheaply and we are confronted with some need to make that an adjunct to our other business, some other product, and we find that even though it may be a little out of step with the broad policy they do lead us and help us to keep ourselves alive. So we thought we would prefer not to appear before you talking of these intricacies of the problem but making the statement here that if over the period of years we can find an understanding with the federal authorities in the easement of our customs problems and a climate conducive to this industry in Canada, that that could thereby be arranged. Now, that is a long list of words in answer to a very short question.

MR. GUSHUE: Would that possibly mean that the treatment which you expect would be a graduated





sort of treatment to perhaps more or less large or small parts in the industry, low as in one place, high as in another. Would it be graduated to different parts of the industry?

MR. TURNER: That is right.

MR. GUSHUE: Just one more question.

I think on page 14 somewhat along the same line where I thought also you had a note of warning:

"The policy of favouring the extractive industries should be modified in line with the fact that the Canadian economy has become increasingly a manufacturing rather than an extractive economy."

Do you mean that it should be modified by removing something that the extractive industries are now enjoying or adding something that the secondary industries are not enjoying or is that a complicated question?

MR. TURNER: Well, this might be the wrong presumption on our part but I believe what we are thinking of is the matter of doing something to the extractive industry.

MR. GUSHUE: To the secondary industry?

MR. TURNER: To the extractive.

MR. GUSHUE: Taking away something that they enjoy?

MR. TURNER: Yes.

MR. GUSHUE: Do you look forward in the next 25 years to the Canadian industry having a competitive position as regards other producing countries?

MR. TURNER: Oh, yes, that is our



determined effort. We would be forlorn in our outlook if we believed we could not improve our position. That has been done. We have been constantly improving it. Temporarily we are a little pressed in our prices but that does not mean that we believe for one moment that this industry of ours is not so essential to all other industry in Canada that we will not find enough receptiveness and amelioration of this existing situation of ours to improve itself. In other words, every industry needs some one of our products for communication, for automation, for transportation and we don't think that there is any possibility of that diminishing.

MR. GUSHUE: I notice that in the course of your brief and the summary you have made the point that the Canadian industry had been virtually forced out of world markets by various factors which Mr. Grauer mentioned. Has it enjoyed any kind of large part of world markets?

MR. TURNER: No. There was one time when individual companies had a pretty good market under the British Empire Preferential Tariff in Australia and South Africa etcetera. I would not say it was large but you have got to recognize this, that the European electrical manufacturer is not a young fellow either. He has been in the business for years and years, 50 or 60 years. There has been an excellent exchange of technical know-how between the continents. As professional and scientific people do, they move back and forth. The European manufacturer is a good manufacturer. He has know-how. He has trooped into





these foreign countries and has established markets there. We have travelled in alongside of him but he is still doing it and it is a rugged competition particularly in the sterling bloc area.

MR. GUSHUE: Your domestic market will for a long time continue to be your principal concern?

MR. TURNER: Yes.

THE CHAIRMAN: Mr. Turner, just one thing that has been said that I would like to suggest is perhaps entitled to a little modification and that is the suggestion that some assistant Deputy Minister in Ottawa had said that the policy of the government was to favour extractive industries and take back manufactured goods from other countries to pay for the exports of raw materials. We did not get quite that impression from the representations in some other parts of the country. I doubt if any Minister has ever announced government policy in quite those terms. Perhaps we might admit that it is not quite as definite and plain as all that.

MR. SIMPSON: I think that I repeated that word for word.

THE CHAIRMAN: But you are not suggesting that this assistant Deputy Minister determines government policy, I suppose?

MR. SIMPSON: No, Mr. Gordon, I am not. But under the circumstances I would think that he would be well qualified to know what government policy was. Shall I put it that way.

THE CHAIRMAN: Well, I don't know who we



are talking about so perhaps we had better not stress it too much.

MR. SIMPSON: I would not have made that statement except that it substantiates the experience of secondary industry and it substantiates many of the conversations which we have had in Ottawa and I think I prefaced the thing by saying it was no secret.

THE CHAIRMAN: Well, it was certainly no secret to whom?

MR. SIMPSON: Well, the policy as such is no secret. I mean it has been a recognized policy both in intent and practice for a number of years.

I think there are one or two things we have to face. Mr. Gushue has asked about the intent of a certain statement here and that is the one:

"It must not be taken for granted that secondary industry will grow and flourish under any and all trade and tariff conditions imposed by the government."

That is in there because GATT negotiations are proceeding and I suppose will over the years, continue. It may not be generally known to all persons but unless it is changed within the last year, Canada is the only signatory to the agreement that implemented that agreement by legislation which became effective on June 1st, 1950. No other country has implemented the agreement by legislation. In consequence, our markets have been wide open to the flow of goods while their markets because of exchange restrictions, import licenses and so on, have been shut to us and as you know in many





cases they have made use of the escape clause in GATT. Our friends to the south have, on more than one occasion. And so we have been penalized to quite an extent through our adherence to the agreement without any departure from it.

This sentence here is merely a statement to the effect that we think we have proceeded far enough with that at the present time until the others give some signs of co-operation. GATT was supposed to be a reciprocal trade agreement and there has been a distinct lack of reciprocity so far.

THE CHAIRMAN: Well, I expect the government is well able to take care of itself but I suspect they would not think that an assistant Deputy Minister was the person to announce government policy. That was the only point I want to make.

MR. GRAUER: I don't think it could be taken for granted, however, that the only way you could have secondary industry certainly as it extends to a healthy business is by crippling the natural resources industry. There is a bit of implication which might be read that way; in other words, I don't think we will have to take for granted yet that we cannot have a healthy natural resources industry plus a healthy and reasonable secondary industry.

MR. TURNER: No, I would hope that you would not take from this presentation that it either implied or said that we had any intention of expressing the view that extractive industries should be hampered or crippled and just to be awfully forthright about the





whole thing, they are great users of the products of our own industry and between the two divisions of industry we can hope to prosper.

MR. GUSHUE: That was why I asked that question. I think the answer was quite clear.

THE CHAIRMAN: I think Mr. Grauer has made a very good point that what we want in this country is prosperity in all industries.

MR. TURNER: Yes, that is right. The real issue is how best to establish a diversified economic structure in Canada.

THE CHAIRMAN: Well, thank you very much, Mr. Turner and Mr. Simpson and Mr. Lougheed. We are pleased to see you back, Mr. Lougheed.

We are pleased to welcome you to this Commission, Mr. Goss. If you will present your submission on behalf of the Canadian General Electric Company we will mark it Exhibit No. 162.

MR. GOSS: I think, Mr. Gordon, in the interests of saving the time of the Commission I would like to take two of the questions you have asked and comment on them and dispense with the reading of the brief if I may. You have it and I believe that there are two areas here, where perhaps we can be helpful. The first is the general area of a comparison of manufacturing efficiency and costs.

I think in approaching the matter of the comparison between the European countries, the United Kingdom and the United States that there are three types of manufacture that pretty well cover the situation and



I think we get a much better picture if we treat those separately rather than as one bundle.

Suppose we take the custom built equipment, the larger power transformers and water generators where you have in general equipment that is of a general purpose nature and not highly specialized, not as much mechanization. The equipment is custom built. Specifications may run to 150 or 200 pages requiring a great deal of engineering. The labour content may approach 50 percent of the manufacturing cost. In that case the wage differentials are quite important. While there are some variations between those areas we are discussing in material cost, they are not nearly so important as the labour cost. There, in comparison with the United States, our costs are pretty much a stand-off. We have somewhat lower labour cost, somewhat higher material costs, but the difference is not very great.

Then let us go to the other extreme and take electric light bulbs as an example of a type of product that lends itself to high mechanization and mass production where the investment per employee is fairly high and where the labour product is generally low. In general light manufacturers run in units of 300 or 350 employees in a factory which allows pretty full mechanization and we are competing with the United States pretty much across the board in that type of manufacture. We can produce a 60 watt lamp bulb for perhaps the same price or within a very narrow percentage of the cost it could be produced for





in the United States.

The third type is one which at first glance you might not think was a very good example and that is the heavy domestic appliances and fixtures, in general washing machines, refrigerators or heavy electrical appliances. There, about the minimum mass production plant that you can build will have an inherent capacity of two shifts or 80 hours a week or between 200 and 250 thousand units a year. They just don't come in any smaller packages but you have got to have one of finishing equipment, one of punch presses and one of each of the elements or groups of elements. However, if you had a 25 percent capital investment on that initial investment you could double it if in that plant you produced 500 to 700 thousand units a year and it is quite easily to establish by the typical plant which I have shown you.

Now, what does that mean? It means that your costs are going to continue and continue until you reach this optimum size of plant and there is an appreciable difference between the initial investment you make at 75 percent of your production and half your production and the ultimate with the additional 25 percent investment can double the production. We are in the position in Canada in 1955, the total refrigerator production was about 350 or 360 thousand. That is just about what the minimum facilities would produce if one manufacturer had all the business. We had roughly 19 manufacturers competing for that business so we are at a considerable disadvantage with the well-rounded facilities that are in



the United States in mass production and large blocks.

Now, this advantage does not continue to increase indefinitely. The fact that the United States market is 14, 15, 16 times the Canadian market does not mean we have to close that gap to be competitive but it does mean until we are able to have a few well-rounded facilities, we are not going to have the production costs that are the optimum. That, I think, is a concept that we have to keep in mind in looking at that because the optimum size of plant to a considerable degree determines your cost. So I go from one extreme, the custom equipment where labour is the predominating factor to the other one, where the equipment and investment is the determining factor. Those have been helpful to us in assessing the various parts of the problem.

I think we have to have more population and larger market and that I think a few manufacturers have to earn -- I would put earning with a capital E -- by performance a larger share of the market in order to allow them to have better facilities that are competitive.

The second part that I would like to discuss is the matter of engineering and research. In engineering and research there is a tremendous need in our industry and certainly in our company, for top-grade engineering scientists. I think we <sup>should</sup> rather put stress on the quality of training of these men rather than on the numbers because I don't believe that numbers solve our problem. I think we have tended to dissipate much of the energies of technical people by having them in abundance and using them to do a great deal of clerical and routine jobs





rather than to relieve them of that and give them laboratory and technical assistance.

We have in our company really one, I would say, good laboratory set-up or we will have when we complete the one we are now putting in Peterborough but the technical laboratory to assist manufacturers in the areas of development and research again has a critical point. You have to bring together the skills -- metallurgists, physicists, chemists and other specially trained technical men -- to work as a group because in the main talents that we have to have to advance the art of engineering in our various fields we need more than the specialized talents of one, we need a group of people. I don't think we have done very much fundamental research and that is used broadly and I am restricting it to that research for new knowledge with no specific product end in view but in getting into engineering development we tend very rapidly to get away from the search for pure knowledge, to try to solve problems or come up with a new product. In the case of the Canadian General Electric Company we have the full resources of the United States Research Laboratory and development laboratories and we have leaned rather heavily over the years on those facilities. They are equally available to us as they are to the United States company but we have seen in recent years much more this need to attract top-grade men by giving them more original work in the lab to do, more original work both for their training and the sake of





experience. The needs of our industry are different and there is no way in which the thousands of things made in the United States would compare to our market.

Very briefly I am going to let my statement stand on that. The points are covered in the brief.

THE CHAIRMAN: That is very helpful, Mr. Goss, and you have given us two most important views on it. Mr. Smith, the president of the University walked in just as you started your second point and I would expect he would agree that quality is more important than quantity when it came to turning out university graduates and engineers.

I do want to say, Dr. Smith, how grateful we are to you for letting us have our meetings in this Senate Chamber.

DR. SMITH: Very glad to have you.

THE CHAIRMAN: I thought your remarks about the optimum size of plant was a particularly valuable contribution to the work of this Commission. That is the first time, I think, it has come up in such a clear fashion and it is certainly something that we need concern ourselves with. Mr. Goss, in talking about the appliance business you pointed out the total number of washing machines and refrigerators and so on that are actually purchased in Canada and related those numbers, 300,000 a year, if I remember, to the optimum size of plant producing refrigerators and you went on to talk about the importance of some Canadian manufacturers earning an appropriate share of



the market. Now, that seems to me a thoroughly important point you have brought up. In the appliance business in Canada there are a relatively large number of manufacturers who are attempting to divide up between them a relatively small market. Would you expect that over the years there would be a concentration in the hands of one or two or half a dozen of the larger or more up-to-date firms?

MR. GOSS: I would expect and I believe that has been the pattern of most industries from the automobile industry on down, that as a product becomes well developed and has a relatively high saturation in the market, that the more efficient producers and the ones who will do the best job of serving the public are the ones who come to the fore there.

THE CHAIRMAN: But that does not apply necessarily to the more custom made articles, or does it?

MR. GOSS: I think the situation is a little bit different there although I think the trend is the same. If you have a product where in the whole situation of its growth like an automatic reactor, technical progress is very important, to have something that works is number one. As you get higher up on the growth curve where you have a number of producers who can make that then the emphasis is on development and the leaders who have maintained their position are in a better position to serve. In a well-established industry that is rather different in an old industry for a new company to come into. After it





is established, it is expensive to do but I don't think there is an advantage to the mass production facilities and the heavy investment that you have on some of the appliances but I think you are continually dependent upon your engineering skill to keep you in the forefront there.

MR. STEWART: I would like to follow up both those points a little bit. You were emphasizing the case of the custom-built type of equipment, the man or labour factor. Might I take one case with which I am familiar in a very minor way and see if you would agree that what you said would apply in this case. There is an increasing installation of gas turbines in Alberta for obvious reasons at the present time. I understand that a European producer is very successful in getting these contracts. You probably know who I am referring to?

MR. GOSS: I think I do.

MR. STEWART: Is this strictly a difference in labour costs?

MR. GOSS: No, I think the example that you pick, you have picked a product that is relatively late on its growth curve. There are relatively few gas turbines in the country in comparison to other prime movers. In that area the party who has something that is good and which has proven that it works is all important. Once you have that, the cost of production, of course, allows you to sell that in a market in competition with a country with a higher labour cost at a better advantage.



MR. STEWART: So it is know-how at that stage?

MR. GOSS: Know-how is very important at that stage, so much more important than it will be 15 or 20 years from now. As far as I know today there are only two or three companies in the world who are producing gas turbines of the size you are talking about but 20 years from now there could be 10 companies in the world producing those.

MR. STEWART: Then that is a pretty important implication for the development of atomic energy, isn't it? After all, here is a new field. If Canada is going to get well established in this field it must get in at the start and must get the know-how?

MR. GOSS: Yes.

MR. STEWART: In the case of the other types of industry, I don't want to press this much further than Mr. Grauer did, but it does seem where you have a limited market and where you have 19 producers trying to divide it up that there would be a very strong tendency towards consolidation. Is there any trend like that in this particular section of the electrical industry?

MR. GOSS: Well, I don't ---

MR. STEWART: What are the impediments to it?

MR. GOSS: Well, of course, the impediments are the natural structures of the companies that are in the field. Many of them are not in just this





field alone. They feel there is a future in the business and perhaps they can afford to invest some money for a few years in it and establish and build to be one of the leaders.

MR. STEWART: In other words, we are not talking about simply specialized production. Do you have to take that into account?

MR. GOSS: Actually most of the production in Canada today is in the intermediate stage. It is intermediate between mass production and custom built but the tendency is to try to build a full line of major appliances in the one factory and by utilizing these major facilities, by changing tools and combining operations approach an efficient operation which you might have if you had a large factory producing a single appliance, which is what we do in our plants.

MR. STEWART: In the research area you drew a distinction, I think, between what is sometimes referred to as fundamental research and the applied or developed mental activity and that is an important distinction. I wondered in the field of pure research where you may need large laboratory facilities whether there is any possibility there of co-operative research between the firms in the industry. We have had from at least one other industry evidence of co-operative research in the more fundamental areas which could be picked up by any firm.

MR. GOSS: I think that is possible. I think it is probably also possible to work out programmes at universities which might be supported by one or more





of the industrial companies with a common interest in the area.

MR. STEWART: I can see in the case of what you refer to as developmental research that that is probably for the individual firm. We have had a good deal of emphasis on innovation as a new factor in competition today and that is an individual firm's problem. But in the more fundamental field, however, co-operative research amongst the firms by using the facilities of universities, where do you feel that government agencies come in in this area?

MR. GOSS: Well, I think the atomic research with Atomic Energy of Canada Ltd., the project on the first reactor is a good example of an individual industry and utility.  
/I believe it would be in those broad areas, that is, where you are really looking for knowledge, because as soon as you approach the design of a product then the companies interested come to the forefront in wanting to have superior design in their own product.

MR. STEWART: Have you any views on the quality of engineering students? Can you in a word say what you mean when you say "quality" in an engineering graduate?

MR. GOSS: Well, I will have to put this as a personal opinion but I will be glad to answer your question. I think we look for two things in engineers. One of them is balance in the individual. That is the ability to get along with people, the ability to have or develop common sense, that is, to bring to bear in his area a reasonable amount of ingenuity, willingness



and ability to order some of his own affairs and some of our very best engineers are well-rounded men in that area. I think we always look for that and we look on the other side for the outstanding specialist. He can be a prima donna of the first order if he is good enough because you can afford to give him all the help you can to help him develop along his individual line. We need the both of them. We need the outstanding specialist and we need the well-rounded man.

MR. GUSHUE: May I just follow up Dr. Stewart's last question? We had a statement yesterday which suggested that universities ought to turn out engineers and I think it went a little further, with knowledge of such things as cost accounting, office routine and procedures, writing letters and one thing and another. You don't seem to attach so much importance to that as the person who made that statement yesterday. You would rather see something different?

MR. GOSS: Well, if I could retreat back to my well-rounded man that I think we are looking for the skills he does not have I think industry could do a lot to teach him.

MR. GRAUER: With respect to the optimum sizes, the figures you give on page 7 are rather interesting. The refrigerator and the range fields both are somewhat below optimum size of one mass production installation and yet you have 19 to 25 Canadian manufacturers respectively, but when you come to the relative costs as between Canada and the United States there is only 15 or 20 percent difference. I would





have expected a much bigger difference.

MR. GOSS: This is arrived at by the optimums of the total package of appliances we have to build because we build in one plant a full line of major appliances and by rotating our facilities we try to furnish an efficient operation but we still have a penalty of 15 or 20 percent which is quite large in that figure.

MR. GRAUER: Do you feel you are, as one manufacturer, approaching the optimum size of production?

MR. GOSS: Oh, 15 or 20 percent is a terrific handicap against a mass production plant. There is one other thing we have to look at and that is if you have an efficient plant that will produce 700,000 a year and you are operating, let us say, at 70 percent capacity, your incremental cost of production if you can import it, is very much lower than your normal cost.

MR. GRAUER: Well, let me put it this way. If you did have optimum size plant here beyond which you would not make economy, would your costs, taking every factor into account such as labour and freight, etcetera, be lower than the same plant in the United States?

MR. GOSS: It would not be very much different because our labour costs are not sufficiently different. I would say slightly lower but I don't believe it would be more than 5 percent lower.

MR. GRAUER: But given that optimum size?



MR. GOSS: Yes, I think there would be a stand-off, probably slightly favourable.

MR. GRAUER: That is something we can expect to develop over the next 25 years?

MR. GOSS: I certainly hope so.

MR. GRAUER: In respect to the automatic reactors, I don't know if Dr. Stewart realized what was being done in this field. There is this actual reactor, the beginning of one secondary reactor and then there is this larger sized reactor which it is hoped will be of economic and commercial use.

MR. GOSS: Yes.

MR. GRAUER: Do you feel that the line we are taking there will put the Canadian manufacturing industry and the electrical field in a position where it can compete in that field having in mind the very much more diversified efforts which are going on in Great Britain and the United States? Looking ahead over this period we are supposed to look ahead, what would be your guess as to the situation as far as Canada is concerned?

MR. GOSS: Well, there again, this has to be simply an opinion based on the little bit I know about the subject but we are certainly in a good position today to know what is going on in the power field. I think the research work that has been done at Chalk River is outstanding and I think we are doing everything that can reasonably be done to develop such an industry in Canada. We are hopeful for it. I am optimistic, but I am an optimist.

MR. GRAUER: You have to be in this world.





Well, that is what I wanted to know.

MR. GOSS: You can't tie yourself down to any specific answer on this at this stage but we can put ourselves in a reasonable position as far as asking for knowledge is concerned.

MR. GRAUER: I think so, and we have the natural supplies, the uranium that is a factor in the total world bulk but there has been so much written about the activity and like this reactor, it seems many of them have been sold before they have been investigated.

MR. GOSS: Yes, there is one around the country selling a small reactor. I have seen no figures to date that even in the planning stage are down to the level of power generation costs and it is too much of a projection from where we stand today. I certainly think we are hopeful and I, for one, think that in entering a new field you always plan on invention because the necessity does bring it about and to a greater degree on a timetable. About the time that we have the need we can come along and help the invention to fill in the missing parts.

THE CHAIRMAN: Thank you very much, Mr. Goss. It has been a very interesting and very valuable contribution. We are very grateful.

--- Recess

--- After recess

THE CHAIRMAN: Well, Mr. Thompson, it is my pleasure to welcome you to this Commission particularly as we started in the electrical business together





and you had the sense to stay with it.

MR. THOMPSON: I doubt though if you are so much improved as me over the years. I am bringing with me, however, more knowledge than I would have of the business. Mr. Kerr, Mr. McBain, who is the assistant to our president and Mr. Leyland.

I believe some of the things I am going to say in this short brief of mine have already been said and they are repetitious but since it is all I have I hope you will let me have the opportunity of reading it.

In its letter of invitation to attend this hearing, the Commission expressed particular interest in four broad questions concerning the Canadian electrical manufacturing industry, with particular reference to our Company, the Canadian Westinghouse Company, Limited. I should like, first of all, to present my views and those of the Company on the Commission's four questions, after which I will conclude briefly with some comments of my own on the overall question of government policy and Canadian industrialization.

1. The Commissions's first question deals with the costs of production in Canada compared with those of the United States and the United Kingdom, and calls for an opinion as to whether these relative costs are likely to change in the future.

The Brief of the Canadian Electrical Manufacturers Association, and other representatives of the electrical manufacturing industry, has already



pointed out that costs of production are definitely higher in Canada on mass-produced items than they are in the United States, and higher on most types of heavy equipment than in the United Kingdom.

Item-by-item comparisons are difficult to produce in support of this general statement, partly because of the complexity of the considerations involved, and because producers in other countries are understandably at some pains to avoid disclosing their true production costs. Moreover, products manufactured in Canada and other countries, while they may be similar, are not necessarily identical.

A study we have made of this question indicates, for example, that a 21-inch console television set costs 23 percent more to manufacture in Canada than in the United States. A popular under-oven electric range costs 22 percent more to manufacture in Canada. This comparison, of course is on the bare factory costs and does not include engineering, distribution costs, etc., or dealer's mark-up, sales, excise or other taxes.

On the heavy industry side, it is virtually out of the question to get specific production cost figures from United Kingdom and European producers. The best estimates indicate that British electrical manufacturers' production costs are approximately 25 percent below the Canadian manufacturer's costs for the same types of heavy equipment. These items are nearly all custom-made for our market, and no standard of comparison, item-by-item, has been obtainable to date.

As to the future, we believe the differential





between Canadian and United States production costs in mass-produced items will tend to become less. As our own market grows, we will be enabled to take fuller advantage of mass-production economies and other technical improvements. In fact, we have already seen this taking place, to a limited extent. This will be true, however, primarily for large-volume items, such as refrigerators, television, electric ranges and the like. There will continue to be a large cost differential on items produced in smaller volume.

The hoped-for gains in productivity in large-production items, moreover, can be readily offset by the extent to which Canadian producers are forced to close further the present narrowing gap between Canadian and United States wages.

Average hourly wages in 1955 were \$1.52 per hour in Canada as against \$1.88 per hour in the United States, as shown by the CEMA brief. But the rise in wages in the Canadian electrical manufacturing industry in the same period, a trend that could well nullify the advantage we have gained through technological improvements and our growing national market. Moreover, it must be pointed out that, because of regional variations in wage rates, electrical goods are even now being produced in some parts of Canada at wages equal to or above those paid in some parts of the United States. Our own Company, for example, is paying average hourly wages in Hamilton of \$1.82, which is substantially equal to the U.S. national average.



The heavy apparatus picture does not present the same relatively hopeful picture as that of mass-produced items. To a large extent the production cost differential between Canada and the United Kingdom, as well as West Germany and some other European producers, is partly the result of currency devaluation and partly the differentials in wage rates. Consequently, technological advances do not affect costs in this area so much as monetary considerations and government policy, and the production costs differential will continue to depend on matters outside the control of the Canadian electrical manufacturing industry.

II. The Commission's second question concerns "the various factors which have brought about the spectacular growth of the electrical equipment and electronics industries in the past, and the prospects of a similar sharp expansion in demand taking place in the years ahead".

The growth of the electrical manufacturing industry since the War has already been well covered in the CEMA brief. Our own Company's growth has followed a similar pattern.

As to the future, it is our expectation, based on our own forecasts and those of the Ontario Hydro and other electrical utilities, that the industry will continue to expand rapidly, though the overall expansion rate may not be quite as rapid as during the last ten years. However, in some fields, the growth may continue to be rapid indeed. There are indications that electronics will continue to develop at a high rate; also the newer





fields, such as the various applications of nucleonics and nuclear energy.

Apparatus for the production and distribution of electric power will take a decided upsurge, if the predicted increases in electrical utility systems for the next 25 years materialize. For example, Dr. Richard Hearn, Chairman of Ontario Hydro, recently forecast a five-fold increase in demand for electric power in Ontario in the next 25 years -- an expansion at the rate of about  $8\frac{1}{2}$  percent per year. Our own forecasts indicate that the annual Canadian demand for new generators will increase from the current level of about 1 million kva per year, to 6 million kva per year by 1980; demand for power transformers will increase from 5 million kva to 22 million kva per year in 25 years, and demand for motors of all types will increase from the present 1,250,000 horsepower per year to 6,250,000 horsepower per year in 1980.

The rate at which the demand for home appliances, radio and television continues to grow will probably depend on the rate of increasing industrialization of the country. Home appliances, radio and television, now constitute an increasingly large portion of our total business. While the growth in the next few years may not equal that of the recent past, it is our expectation that this portion of the business will continue to grow.

Everything considered -- and always assuming a continuing favourable economic climate, we believe the industry will continue to expand, and that this expansion will continue to outpace the growth of the Gross National Product, a trend that has been evident for more than twenty





years.

III. The Commission's third question asks whether "further specialization in production might enable the Canadian industry to obtain an increasing share of the domestic market and improve its competitive position vis-a-vis foreign suppliers".

This question, it seems to me, may have a double meaning. In one sense it may be an inquiry as to whether there would be any advantage to the industry or the Canadian people if the electrical manufacturers were to get together and divide up the market in such a manner as to give each producer a larger share -- or all -- of a certain line of products, -- I had not intended that you

THE CHAIRMAN:

you should get together, you know.

MR. THOMPSON: I don't think so.

--- thus increasing his production and enabling him to overcome some of the disadvantages of smaller production runs. This is a rather theoretical suggestion which has been advanced from time to time by economists seeking to find a solution to the problem of our relatively small Canadian markets.

Quite aside from the question whether such an approach would be permissible under the Combines Act, we feel that it would be impractical, and in the long run destructive; it would be resisted by the industry and the customers alike, and it would not solve the problem.

There is, first, the virtual impossibility of getting a large and highly individualistic group of



manufacturers to make such an agreement, in which some would voluntarily withdraw from the business, or a portion of it, simply for the benefit of the others. Even if that bridge could be crossed, it would be necessary to bar out of the country any competitive products from abroad, in order to maintain a large enough market for the surviving producer or producers really to reap the gains of appreciably larger production.

Then there is the question as to whether customers would accept the fewer lines and smaller number of choices such a dividing-up of the market would produce. Experience shows that free competition, freedom of choice, and brisk competitive advertising and selling are what cause markets to grow. People do not by themselves "demand" even such staple products as refrigerators. These had to be "sold" to the public over a long, hard period -- and they continue to have to be "sold" to the public. Without active, competitive advertising and selling, the market for any line will gradually diminish and dry up. In this sense, competition and all that goes with it is basically responsible for creating the demand for a better standard of living, as well as of supplying the things that go to make up that increasing standard.

Finally, even forgetting the importance of all the previous factors, the assignment of any line of products to only one producer would inevitably result in arrested progress, higher costs, loss of quality and other factors associated with monopoly production. It is vigorous competition that keeps up





quality, keeps down prices, speeds improvements both in manufacturing methods and the product. For all these reasons we believe any artificial method of reducing or eliminating competition in the electrical manufacturing industry, either by mutual agreement among producers or by government fiat, would soon have an effect just the opposite of that intended.

On the other hand, there is another aspect to the Commission's question about specialization which, it seems to us, does point to improvements in the industry's ability to perform, and which is beneficial both to the industry and to the people of Canada.

This is the increasing specialization within the industry that is being brought about by the action of free competition. This development, now going on at an accelerated pace, is the one that has enabled the industry to support 457 different manufacturers, most of which produce only a single product or a single line of products.

In modern manufacture there are great advantages to such specialization. It makes possible the development of straight-line, integrated manufacture, in plants specifically designed for the product, and with equipment that reflects the optimum in the use of power, automation and semi-automation. It makes possible lower labour costs per unit of product, and permits the manufacturer to concentrate the thinking, efforts and skills of his people on the one product or product line, without wastefully scattering their



efforts or abilities over a larger area.

The success of many smaller manufacturers in their single lines, plus general economic consideration, is tending to force the multi-line manufacturers such as Canadian Westinghouse to follow suit in one way or another. Our own Company in recent years has been removing production of some of its lines out of the central plants at Hamilton, into new, modern, straight-line integrated plants in smaller communities, thus increasing the degree of specialization in the manufacture of these lines. Under this policy, we have moved our Lamp manufacture to Three Rivers, Quebec; our Radio and Television manufacture to Brantford; our parts manufacture for television tubes to Grimsby; our Lighting Division to Granby, and our small motors manufacture to Stratford. Other lines undoubtedly will follow the same course.

Throughout the industry similar movement is taking place. We believe this is a healthy development, which will act to produce more and better products, at lower cost, for the Canadian public, through the normal workings of free competition in the free enterprise system.

IV. The Commission's fourth question has three parts: (1) the degree to which the industry has stimulated research, (2) the amount of training provided for skilled personnel, and (3) whether the Canadian industry is faced with any special problems in these fields.

The part of the question dealing with





research is much more complex than it seems, since research, as such, is only part of the whole technological process by which electrical products come into being.

This process begins with product design. In the case of heavy apparatus, such as generators or switchgear, the equipment must almost always be designed to fit the specific requirements of the customer, and for this reason a highly-trained and highly-skilled group of engineers must be maintained to carry out this design and development. Our engineers engaged in this kind of work in Canada are equal in ability and experience to those of any other country on earth, and constitute a national asset of untold value, since without them the electrical industry would soon grind to a halt and disappear.

In mass-production items, such as household appliances, television and the like, a great deal of design and development work also precedes production. In many cases, these designs are similar to those produced in the United States, and it is more economical to adapt U.S. designs to Canadian manufacturing and customer needs than to design from scratch.

In the field of electronics we have in the last few years developed a team of engineers, engaged in this highly technical field, that we believe is not equalled anywhere in Canada, and the counterpart of which is to be found in few companies anywhere else. This group has been able to develop or contribute significantly to the development of entire projects such





as guided missiles, torpedoes, atomic energy apparatus, and other pioneering engineering and research projects of great variety and outstanding success.

Similarly, our electrical engineering group has been able to make a number of important contributions to the development of electric generation, transmission and control. More than half of the electric power generated in Canada today is made by machines designed and manufactured by our Company. Among the contributions of our people to the electrical arts are new superior types of insulating materials, improved generator and switchgear designs, and the new Jet-Aire Circuit Breaker, which is expected to prove of major importance to the industry both in Canada and abroad.

Research, as such, is an important part of this entire technological process. In addition, research laboratories are maintained for the selection, testing and improvement of materials and processes, and in some instances for the exploration of possible new products and product applications, the development of new materials and the exploration of fundamental new principles. These latter aspects of research, however, are costly, and can be sustained only by very large companies. For that reason, much of this speculative or exploratory branch of the research art is carried on by companies in the United States, and access to the results is available to Canadian companies through licensing arrangements and the like.

As the Canadian industry grows, research undoubtedly will become an increasingly important function.



Our own Company has considerably increased its engineering and research activities in recent years, and will continue to increase them as rapidly as conditions permit. The electrical industry is based on research and technology, and can advance only through greater and greater attention to it and application of its results.

As to training: our Company annually recruits a number of young men; engineering graduates of Canadian colleges and universities for the most part, though some are students in other fields such as accounting, business administration and the like. These men are given an intensive "post-graduate" course within the Company, lasting eighteen months to as long as two years. During this time they greatly widen their engineering knowledge and skills, and the Company at the same time becomes acquainted with them, so that they may begin their professional lives well prepared and in positions best suited to their talents.

The number of young men annually chosen for this type of training varies with the expected need, and in recent years, with the number available. There is, of course, a great and growing deficit of young engineers, both in Canada and in other countries, and there is much competition for them among companies of almost every kind, as well as government operations that involve technology.

This is, in fact, the principal problem faced by the industry now in this area. It has been estimated that the need for engineering graduates this Spring in Canada will be 2,000 to 3,000, whereas only





1,600 will be graduated. By 1960 it is estimated that the need will be for 3,500 to 4,000 engineering graduates annually, and only 2,500 will be graduated.

Our Canadian shortage of engineers is further increased by the demand from the United States, and the generally higher salaries American companies can pay for able engineering and research personnel. Until now we have been spared some of this competition, so far as young college graduates are concerned, because of the requirements for military service in the United States. We understand these military draft requirements are now being modified in ways which will improve the attractiveness of U.S. employment for young Canadian engineers. If this takes place, our own shortage will, of course, be further intensified.

We have been meeting our Company's extra demand for engineers in recent years by recruiting able engineers from abroad, particularly from U.K. and the continent. This has proved a valuable resource, and continues to supply us to some extent. But the competition for these engineers is growing more intense, and it will probably prove more difficult to get engineers from overseas in the future than in the immediate past.

In any case, the only sensible plan for the long term would appear to be to develop our own engineering and technical talent. This will require a great deal of organized effort on the part of the schools, colleges and universities, of industry, and of the government. But in our opinion it will be quite necessary in view of the country's expected industrial



growth and development.

V. In conclusion, I would like to emphasize a point it seems to me must be very much in the Commission's mind as it concludes its deliberations and makes its recommendations.

I believe we cannot take it for granted that Canada will grow as a well integrated and well balanced industrial country -- unless we plan it that way. It must be a matter of government concern: whether further industrialization shall be encouraged, or whether other portions of the economy shall receive the encouragement at the expense of industrial development.

Industrial growth is not a mere matter of statistics or the mechanistic operation of economic forces. It is a very human thing; it grows from human hopes, aspirations, imagination and energy, human needs, and human goals. It can take place only in the presence of reasonable assurance of stability in general conditions; it requires time and advance planning on the part of all concerned.

For example, we cannot have advanced industrial growth if certain types of industry are always to be considered expendable in the interest of other sectors of the Canadian economy. We cannot have assured industrial growth if we do not create the right conditions for the training of greatly increased numbers of technical people to supply future industry's needs. We cannot have rapid industrial growth if we are always to be confronted by the danger of destructive competition from abroad, brought about by currency devaluation or





other governmental policies that give us no opportunity to compete and from which we have no protection through our own governmental policies. Finally, we cannot have the fullest long-range industrial growth so long as it is virtually impossible for us to find markets abroad for our Canadian manufactured products.

Consider for a moment the plight of the Canadian manufacturer under present national policy and international trade conditions.

The world's largest market for manufactured goods, the United States, is, for practical purposes, closed to the Canadian fabricator by the tariff administration practices of that country, the restrictive nature of which are well known.

The second largest market for manufactured goods, the United Kingdom and the sterling area countries, is also effectively closed to Canadian manufacturers by currency restrictions.

Compared with these two, the rest of the free world's markets for manufactured products represent a poor third -- and even in these, Canadian manufacturers have difficulty in making progress against competition because so little opportunity is afforded them to reduce costs by building larger sales -- either in their home market, which they are forced to share with others, or in the largest markets abroad, where they are not permitted to compete.

Furthermore, Canadian manufacturers must meet wage rates and other labour conditions that are rapidly approaching those of the United States. In so





doing, they do not have the benefit of tariff and other protections such as are employed by the United States as a matter of national policy to sustain these wages and labour standards. In our home markets, therefore, we must compete with the manufacturers of the U.S., and overseas while paying these wages and meeting these labour standards, but without their protections, while at the same time their own markets remain essentially closed to us.

If we are to have stable, sustained industrial growth in Canada, we cannot have it by accident. Rather, the conditions must be established, and the doors opened, by planned action on the part of government. This will require policies developed for the conscious purpose of expanding industry -- as a means of providing jobs and income for our people, of making the most for Canada out of our raw materials and the products of our mines, forests and farms, and of further improving the comfort, happiness and security of Canadian life.

THE CHAIRMAN: Thank you, Mr. Thompson. By the way I forgot to mark your brief. It will be Exhibit No. 163.

MR. GUSHUE: Mr. Thompson, in your reference to the necessity for reasonable assurance of stability, it seems to me quite strongly in your thinking is the question of what you would regard as a proper tariff treatment for Canadian industry as against the United States industry, for example.

MR. THOMPSON: We think in terms of proper tariff treatment and customs regulations. To



go back to 1950 or 1951 our industry was particularly hard hit by the devaluation of the English pound and their goods were flooding our country and the Americans were flooding our country. We appealed to the government for help and we were invariably told the trouble with the industry was that we were non-competitive, that we had less efficiency, that we were high cost manufacturers and that we had better get more efficiency and get our costs down. I am not saying there is anything wrong with the government saying those things but I am pointing out that other governments in highly industrialized countries do not treat their people exactly the same way as our government treats our people and I am stressing the point again that the export markets available to us in the world are very, very few, indeed where our markets are open to everybody in the world.

MR. GUSHUE: You are really pleading for equality of opportunity.

MR. THOMPSON: At least we would like to have the opportunity anyway. We can do nothing about it. I don't know, but you don't like to have your hands tied behind your back.

MR. GUSHUE: Is your complaint directed against the American market rather than the European market?

MR. THOMPSON: The American market has not been taken very seriously by the Canadian manufacturers in recent years because it has always been accepted that they cannot build up a suitable market





in that country without some action being taken by that country over night which would shove them out of that market. I do think if we were accorded the same opportunity that the Americans are accorded in our market we would develop quite a trade in shipping certain kinds of goods.

THE CHAIRMAN: Mr. Thompson, when you were building up a strong man that you knocked down about the question that I asked, I wonder therefore -- and I am entitled to ask this question I guess -- you state at the top of page 7:

"Finally, even forgetting the importance of all the previous factors, the assignment of any line of products to only one producer would inevitably result in arrested progress, higher costs, loss of quality and other factors associated with monopoly production."

Would you suggest that all monopolies are inefficient such as the Ontario Hydro or Bell Telephone for example?

MR. THOMPSON: Well, I won't pick out one particular monopoly and accuse it of anything but I think we all accept the fact that it is the natural result of too much monopoly.

MR. GUSHUE: At the bottom of that page you take the exactly opposite line, the company should specialize in one product, the only company anywhere in Canada and they are supposed to make some use of various resources.

MR. THOMPSON: Speaking very largely,



possibly a little too much, from my own company's experience over the years we tended to concentrate all our production in one plant and years ago that was a good thing to do because we had one administration where production costs were small and we were able to pool a lot of our machinery and equipment. With the larger markets we are able to break away a lot of these types of items that we were building out of common facilities and put them into single purpose plants and we are finding that is one of the answers to our many problems.

I would like to go back to a remark made here when you were asking Mr. Goss about the 19 electrical manufacturers in Canada. I think in our industry you will find that pretty near everybody in Canada who manufactures in Canada are all representative manufacturers operating in the United States, and these 19 people, you will find them all national manufacturers and producers supplying the American market and I think it is accepted as a matter of pride and principle that they have to operate in Canada and that is why you find so many over here and I think in the course of time I don't think they will be eliminated from the Canadian market until they are eliminated from the American market.

MR. GRAUER: Do you expect some of your competitors to be eliminated from the American market?

MR. THOMPSON: I think the elimination will take place there first and then here.

THE CHAIRMAN: Are there not a number of independent Canadian firms?





MR. THOMPSON: Very few and those that are trying to act independently are trying to produce a line of products made by a manufacturer in the United States.

THE CHAIRMAN: Well, would you agree that if there were substantially fewer of them that in the lines that should be mass produced costs would be reduced substantially?

MR. THOMPSON: Not in relation to the number of items produced because you must remember first of all we have materials that we have to buy in Canada which cost generally speaking more than they do in the United States. We also rely to a large extent upon items of a specialized nature when we purchase from the United States and on those items we have to pay the manufacturer's profit in the United States and we also have to pay the customs duty and these factors have a built-in higher cost in Canada apart from our own efficiency.

THE CHAIRMAN: But there is the all Canadian fact of lower labour rates here.

MR. THOMPSON: That is gradually disappearing. As I pointed out in our own company in Hamilton we are paying rates in some cases higher than rates that are paid in competitive firms in the United States.

THE CHAIRMAN: On the average though?

MR. THOMPSON: On the average, of course, Canadian rates are lower.

THE CHAIRMAN: Well, thanks very much, Mr. Thompson. Nice to see you.





--- Recess

--- After recess

THE CHAIRMAN: If you will come to order, the next submission, 164, will be presented by Mr. Titus, the Vice-President and General Manager of Canada Wire and Cable Company Limited. If you would like to proceed, Mr. Titus.

MR. TITUS: I introduce Mr. E. G. Fraser of our Market Research Department. I brought him to answer questions that might throw me.

The Commission will appreciate that what is presented here is one man's opinions, based on experience with one company. However, it may possess some validity as the company is probably the largest wire and cable company in Canada and of course, through competition and technical societies, has some knowledge of competitors' developments although we do not know their costs. I should state also that my experience in the telephone cable field is limited. This memorandum should not be considered as applying to that field.

The Chairman, in his letter of November 2, 1955 to Mr. Bradfield, suggested the subjects:

A) Costs of Production versus those of United States and the United Kingdom, and the relative changes in the future.

B) Possibility of increased specialization reducing costs.

C) Stimulation of research and training of skilled personnel.



A) COSTS OF PRODUCTION VERSUS U.S. AND U.K.

The so-called Knox Report prepared for the Canadian Electrical Manufacturers Association (of which I understand the Commission has a copy) and the brief submitted by CEMA to the Commission, I believe cover the broad aspects more comprehensively and authoritatively than could this writer. I may say that I endorse the Report and the Brief.

So far as wire and cable specifically are concerned, it would appear from the evidence of competition that:

A-1) United Kingdom Competition

The impact of the very low wage rates in the United Kingdom is greatest in such products as underground power cables, which are made on relatively low speed machinery. This becomes especially so in high voltage cables. Very substantial orders have gone to the U.K. for 120 Kv, 230 Kv, and one 300 Kv cable, although extra high voltage cable has been produced in Canada in large quantity since 1927.

A further problem with this competition is that since each contract is a "special", it is difficult to arrive at a "Fair Market Value for Home Consumption".

A-2) U.S. Competition

Schedule 1 attached illustrates comparisons with U.S. prices and in consequence, of approximate costs. It will be seen that:

(a) Power Cables (Schedule 1, page 3) - produced on relatively slow speed machinery - Canadian prices actually below U.S. domestic prices.





(b) Bare Copper (Schedule 1, page 1) -

produced on high speed very heavy expensive machines, with long runs of one size at a substantial advantage. Canadian prices close to but slightly above U.S. domestic prices. The costs should gradually come closer together as Canadian market increases in volume.

(c) Weatherproof Wires (Schedule 1, Page 1) -

The same factors as for Bare Copper apply but with the additional rather heavy handicap to us of substantially higher prices for cotton and saturators. There seems no tendency for this handicap to decrease.

(d) Magnet Wires (Schedule 1, page 1) -

Produced in large volume but at quite low speeds with one man attending several machines. It will be seen that Canadian prices are below U.S. prices. This, however, probably is deceptive as to cost comparisons since Canadian prices have been held at abnormally low levels in order to assist Canadian motor and appliance manufacturers to meet competition from low wage rate areas. That may sound rather magnanimous but what we are trying to do is keep our volume up enough that we can carry our overhead. U.S. costs, due to lower bare wire costs should be lower than Canadian, but should draw more closely together as Canadian volume increases.

(e) Building Wires and Flexible Cords

(Schedule 1, Page 2) - Here we feel most strongly the impact of wires and cables mass produced at high speeds in long runs. Our labour rates being close to theirs, they enjoy substantial advantages over us because of:

a market somewhat over ten times ours.



They are able to utilize highly specialized wire drawing equipment and long runs of one size. This advantage I feel will decrease in time as the Canadian market grows substantially and we are justified in buying higher priced equipment. However, they probably will always have some advantage in this respect.

U. S. specifications frequently are not as rigid as ours and as the Electrical Inspection authorities in Canada come under Provincial jurisdiction while Customs come under the Dominion, it has not been possible to get co-operation which will stop the importation of substandard wires and cords, -- our old friend the British North America Act.

THE CHAIRMAN: You are not suggesting we amend it, are you?

MR. TITUS: God forbid.

Furthermore the present anti-dump procedure has not been effective in these products. The comparison between Canadian and U.S. prices on flexible cords is based on published price lists of a very large U.S. producer. In spite of these we find that over 45 percent of the C.S.A. labels issued in 1955 were to U.S. manufacturers. Mr. Chairman, I would like to put in there when I say 45 percent of the C.S.A. labels I am referring to flexible cable only.

THE CHAIRMAN: What is a C.S.A. label?

MR. TITUS: That is the Canadian Standards Association who have to be satisfied that the product meets the specifications. They issue to us labels which we actually apply and we commit ourselves that they are





correct but from time to time they come into our plant, inspect us, pick up our stuff out in the field so that they are sure we are not cheating, but a Canadian Standards Association label in fact certifies that the product meets the specifications of the Canadian Standards Association.

(f) A.C.S.R. (Aluminum Cable Steel Reinforced)(Schedule 1, Page 3) - Here the Canadian consumer enjoys an advantage over the U.S. This is likely to continue.

B) REDUCED COST THROUGH INCREASED SPECIALIZATION

It is not quite clear to me how this can be applied to the wire and cable industry in Canada. It would be inferred that this must be accomplished by abandoning one or more lines to competitors either in Canada or foreign. Any such arrangement as allotting products among Canadian manufactures would appear likely to fall under the peculiar eye of the Combines Investigation Branch of the Department of Justice. In the spirit in which it is at present administered, I, personally, would not care to enter any such discussions.

THE CHAIRMAN: You had some experience along that line?

MR. TITUS: My sentence has been deferred so I am not wearing stripes today.

As to abandoning lines to foreign manufacturers -- this I feel would be highly to the disadvantage of Canada especially at a time of an expanding economy and at a time when self-defence calls upon Canada to increase her skills and industrial self-sufficiency





rather than weakening them. It was fortunate indeed for Canada that we had a wire and cable industry when the only manufacturers of polyethylene radar cables were in the U.K. and under intensive bombing. We were chosen to produce these in North America and for some time supplied both Canada and the U.S. The invasion of North Africa would have been handicapped seriously had it not been for Canadian produced radar cables.

I feel that more, rather than fewer, types of wires and cables will be called for. Economy will lie in volume reaching such size that companies can decentralize operations when the volume of one class permits setting up a separate plant for a principal class of product. This phase is now dawning in Canada.

C) STIMULATION OF RESEARCH AND TRAINING OF SKILLED PERSONNEL

I have put this in because it might be felt we have not progressed upwards so I recite the basis to give our impact towards the future.

C-1 Research

Research within the Wire and Cable industry has been applied principally toward adaptation of products to Canadian conditions and customers' requirements, and toward improvement of raw materials and factory processes. For example, since 1930 the company with which the writer is associated has increased these technical staffs as follows:

High Voltage Cable Engineering Department - from one-half to 10.

Product Engineering Department from one-half to 10.



Product Technicians from none to 15.

Test Labs from 5 to 20.

Development and Chemical Labs from 3 to 24.

I would expect our competitors would be somewhere in the same range as this, I don't know.

Our 60 cycle test voltage facilities have been increased from approximately 200 Kv to approximately 800 Kv.

The technical advances have been startling - e.g. insulated cable operating voltages increased from 69 Kv to 301 Kv and in many directions we have led the way:

(a) The first commercial aluminum sheathed cable on this continent.

(b) The first aluminum sheathed extra-high voltage cable in the world.

(c) The highest voltage cable system designed, manufactured and installed in the English-speaking world (301 Kv).

(d) The longest, deepest, submarine power cable system in the world.

(e) The first polyethylene insulated cable produced in America.

(f) The first aluminum sheathed gas pressure high voltage cable in the world.

The foregoing is recited as illustrations of pioneering developments, original thinking, and application research of Canadian manufacturers. Many more could be given.

The trend is toward heavier costs in these





departments, dampened somewhat by certain pressures toward encouraging imports of our products into Canada. We find it difficult to devote as much to this end as would be possible were we in a completely protected area as the United Kingdom or the United States. Under our conditions we feel our progress is most creditable and hope that we will be permitted to do even more.

In the earlier stages of a company's operations, frequently they rely for research and for technical information carried out in U.S. or U.K., paid for either directly by contract or if a subsidiary, indirectly. Might I go back and point out that these developments are by a wholly owned Canadian company, not a subsidiary of any foreign company. The company with which I am associated has now reached a size and stature such that we exchange information on an equal footing with U.S., U.K., and European sources. The reason I mention this is to point out the importance of Canadian secondary industry generally being encouraged to grow to this position of independence and equality, and that has got to be by volume.

On more fundamental matters or those beyond our equipment capacity, we have had occasion to make use of the National Research Council. As Canadian industry grows, the economic value of N.R.C. will do so at a greater pace. However, it cannot take the place of the particularized application research within the industry itself.

#### C-2) Training of Skilled Personnel

There is a serious shortage of engineering



graduates and technicians in Canada, and I would like to stress that technicians quite apart from the graduate engineer. This threatens to become more serious. The writer's feeling is that this goes right back into our whole educational system, and I am not confining it purely to the university system. More money should be spent on education and especially on the quality and quantity of teachers, or we will fall behind Russia in progress and production. That is the key to the whole story.

Within the industry the training of engineers and technicians is one of applying the principles they already have learned toward solving our problems. This we feel is the best way in which the skill and judgment of the man can be developed and enlarged. We also have training courses for prospective foremen, mainly toward the handling of men and administration problems.

In the skilled trades we carry apprentices and give them full opportunities to qualify for their trades.

The engineers we encourage to improve their education by membership and active participation in their engineering societies.

GENERAL - As to trends:

(a) The use of wire and cable will rise approximately in proportion to the consumption of electrical kilowatt hours in Canada. That is the closest standard we can find. They vary all over but that seems to be the closest.





(b) Its export market will be variable and unpredictable until foreign currencies, economic policies, and the ratio of foreign labour rates to Canadian are stabilized.

(c) There will be an increasing use of aluminum in the future, replacing copper.

(d) There will be an increase in the use of aluminum as a sheathing material over cables, replacing lead, although I think lead will remain the dominant one.

(e) Use of 110 Kv and higher voltage underground cable will rise substantially, and I think will rise more rapidly than the lower voltages, more rapidly than it does at present.

(f) There will be a continuing, increasing use of plastics as a replacement to rubber, textiles, etcetera.

(g) An increase of technical skills will be required in production, application of products, and in research and development.

(h) We will be subject to pressures to cheapen our products which is undesirable from a safety and performance point of view and our Associations, such as the Canadian Standards Association, should be supported in insisting on a high level of quality. The cheapness I refer to there is cheapness in price, not quality.

CONCLUSIONS: - In my opinion the Wire and Cable Industry is faced with the problem of large capital expenditures for expansion and modernization of





plant.

This, together with a need for increased research facilities, demands a favourable investment climate for this industry and a friendly attitude toward secondary industries in order that we may compete for the investor's dollar. This requires assurance that foreign participation in our domestic markets be on a fair basis recognizing the much lower labour rates of foreign manufacturers and the exchange rates.

The contribution of Canadian industry to the development and defence of Canada should not be hampered by an inadequate Wire and Cable industry.

I would welcome any questions which the Commission may care to ask, and of course will endeavour to answer them to the limit of my knowledge.

THE CHAIRMAN: Thank you very much,  
Mr. Titus.

MR. STEWART: I just noticed on page 3 your reference to the aluminum cable steel reinforced and I was interested also in page 5 where you refer to the advances. That aluminum is mentioned a number of times in there but I take it that the consumer enjoys an advantage because of the place which aluminum production has attained based largely on power resources?

MR. TITUS: Yes, we are a primary producer of aluminum in very large volume.

MR. STEWART: I suppose the advantage which we derive from that, is, however, dependent also on the possibility of developing aluminum production on



the basis of export markets?

MR. TITUS: That is very true.

MR. STEWART: It seems an interesting illustration of the importance of a primary industry, doesn't it?

MR. TITUS: Quite right. Also I would point out the importance of the domestic market to the farmers and people of that nature if you raise the question, because I find it a little difficult -- many years ago we used to export in order to buy those things which we could not produce. Now, by a curious circumstance we have reached the stage that we must ~~buy~~ in order to ship our raw resources and the products of the farm etcetera. It has always seemed to me that for example in your farming industry, that one which is most suitable is the one which could sell most of its products into the domestic market. I could recite, for instance, practically<sup>all</sup> of our beef which nowadays is consumed in Canada. I can remember the time (I was brought up in a farming community) where a tariff suddenly goes on in the United States (this is back in about 1911, I forget whether it was before or after the First World War) and we are dependent on an export market, the following year loses his herd of cattle and farm and he is washed out. It doesn't happen these days. He has got a domestic market. I think we would gain more per capita of person employed were they employed in a \$1.50 or \$1.75 economy than in a 50 cent economy. I didn't submit this as a tariff brief. You just started me on my favorite subject.





MR. STEWART: It seems to me there are other resources in this country which should be developed only on the basis of a larger investment which involves a large market in excess of the Canadian market in order to get efficiency and peak production.

MR. TITUS: Probably quite true but why do you develop those large farms?

MR. STEWART: Because we happen to have them and we are able to develop them relatively efficiently, dispose of them and in exchange get other things which we are not so well equipped to produce.

MR. TITUS: Well, if you say "well equipped to produce" I take real issue on that one. I was brought up in a free trade family and the theory of free trade is that we produce things in the place where they can be most efficiently produced. That, I think you will agree, is the basis of free trade thinking, that the whole world or the whole economy of a group or a group of economies is better served if things are produced where they can be efficiently produced. That does not mean for the least number of slips of paper; it means in man hours, it means in economy of human effort. I would not be at all worried to face this 50 cent labour if it were \$1.75. We produce in Canada in the Wire and Cable business extremely efficiently, I believe. I am not afraid to practice authentic competition on a per man hour basis or the basis of efficiency vis-a-vis the United States but I say in the same market size I am not afraid of any country in the world and I say in order to meet them we have to get a market here large enough to get us into



an efficient size and we don't do that by abandoning a market but by building it up and you build it up by an increase in population and the population has to be employed in secondary industry according to the statistics I have read.

MR. STEWART: I thought this was an interesting illustration and I think that we are in a position according to the evidence which we have received to develop other primary industries of this kind and now that has to be part of our setting.

MR. TITUS: I agree with you it is a vast and complicated thing. The only feeling I have and the only desire I have is to create an appreciation of the extreme importance of secondary industry as being the big employers of labour and a place in which the population of Canada could be absorbed. Things are not black and white; they are all shades of gray but I am only interested in the final long range thinking.

THE CHAIRMAN: Dr. Stewart asked a question about aluminum because he was interested in aluminum amongst other things. Just before we leave aluminum there is another primary product in which your company is interested and that is copper?

MR. TITUS: That is right.

THE CHAIRMAN: Would you think from what has been said that aluminum will replace copper or will there always be a use for copper?

MR. TITUS: There will always be a use for both of them. I think if you look at the two of them together the proportion which aluminum will enjoy of the





overall consumption in the Wire and Cable industry will rise. There are some things for which aluminum is positively the thing to use. Our company, while we are controlled by our copper company, we are a conversion company, we don't flaunt it either way. As a matter of fact, we are one of the biggest consumers. As a matter of fact, somebody told me we are the third largest customer of the Aluminum Company of Canada. But I accept as the economy rises I would expect there would be increased use of aluminum proportionately. Mr. Fraser things much more so than I do.

MR. GUSHUE: Does the export trade play any part in the activities of your industry?

MR. TITUS: Some. I have seen it go as high as 15 percent but that was under peak conditions when copper was available in Canada and nowhere else. We have done a fair export trade but it is an unpredictable trade. It is one that we can't rely on. At one time we were one of the biggest suppliers of copper rod into the United Kingdom but there was an embargo against us until about a year ago and we were then permitted to ship only in a minor way. In Canada wire and cable people by and large are dependent upon this little area here. We are shoved out of that one and shoved out of that one and we have got to compete to keep that one. I think we are pretty healthy in spite of it.

THE CHAIRMAN: You have got to be.

MR. TITUS: Yes.

MR. GUSHUE: I notice your costs are lower





in several items than United States costs. Are you barred there by tariff?

MR. TITUS: Well, I think Mr. Thompson put it fairly well. I just would not bother trying to move into the United States market in the atmosphere that is there but it would be very foolish to spend money trying to break in.

THE CHAIRMAN: Well, thank you very much, Mr. Titus. It has been very interesting and we are most grateful to you.

We will adjourn now.

(At 12:45 P.M. the Commission adjourned until 2:30 P.M.)

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A F T E R N O O N      S E S S I O N

APPEARANCES:

Professor W.H.Watson, Director of  
Computation Centre, Head of Physics  
Department, University of Toronto.  
Dr. Calvin C. Gotlieb, Assistant  
Professor of Physics and Chief Computer.

J. G. Glassco, Accountant with  
Clarkson, Gordon & Company.  
Mr. Earl Hauser,  
Mr. Carl Gibson  
Mr. Geo. Richardson

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THE CHAIRMAN:    We are very pleased to  
welcome you, Professor Watson and Profesoor Gotlieb.  
It was good of you to let us have this submission of  
yours in advance which has given us a chance to read  
it and do some thinking about it. We will mark it as  
Exhibit 165.

And if you would like to present it to us  
we might as well get started.

PROFESSOR WATSON:    The submission from  
the Computation Centre of the University of Toronto  
deals with the effects on productivity due to electronic  
computing devices and with your permission I propose to  
summarize its contents emphasizing several points and  
to leave as much time as possible for your questions  
and the answers that Professor Gotlieb and I hope to  
give.

We consider the effect under five heads:

1.    Clerical Work.
2.    Economic Planning.
3.    Computing in Engineering.
4.    Electronic devices in Scientific Research.
5.    Industrial production.





We have drawn attention to the notable increase during this present century of the number of clerical workers relatively to the total labour force both in Canada and in the United States and explained why the complete mechanization of record handling, accounting and other office functions seems inevitable in the not too distant future. On the one hand, manpower is released from clerical work and on the other the machines are going to play an increasing role in economic planning. Both of these may be expected to contribute to productivity. Computing machines make possible the mathematical solution of problems that reflect the needs of operating plants and businesses. It is this aspect of economic planning that I wish to emphasize because it seems to hold possibilities for great change in the fabric of economic organization, not only of Canada but of the whole world.

On the basis of United States experience it may be claimed that management has now reached the technological level of requiring mathematics -- and I do not mean elementary mathematics -- to plan large scale intricate operations. The potential role of computing in economic planning at governmental level and in private business, however, has not, in our opinion received the attention it deserves in this country and the potentialities for business latent in mathematical skill and understanding seem not to be appreciated.

The rate of development of these new techniques and their effective application to get the



optimum economic result from our resources, men and material, depend on research activities well known in science and engineering. An investigation may be directed into the operation of a business or industry regarding it as a process to be treated mathematically using actual records of the operation.

The essential difficulty in using computing machines properly is to get the man who really understands the operations to be investigated, to spend the time required to learn the technique of using the machine to the best effect. The great danger is that the possibilities opened by the invention of computing machines will not be properly exploited.

In engineering, of course, the outlook is very much brighter. It is already obvious that much more detailed design calculations can be undertaken with a large computing machine than without it. This means that more scientific knowledge can be brought to bear in engineering. Besides, arithmetical drudgery can be reduced in large measure and engineering manpower can be made much more useful.

We have emphasized the importance of attending to the efficiency of research which can produce changes in productivity out of all proportion to the sum of money and human effort required to do the research. The fraction of national income that should be invested in intellectual activities connected with how we get, store and use information of all kinds in all kinds of work need not be large. Nevertheless, by these very activities that investment can be made increasingly





productive. It is our opinion that research investigations into the theory and use of computing and data-processing machines have the possibility of affecting national productivity over a generation to a much greater extent per dollar invested than any other activity.

As to industrial production, we have indicated that it is the use of high speed computers in many phases of industrial production that constitute the real novelty of modern automation. This is our main reason for referring to industrial production.

I now come to our forecasts and recommendations which I propose to read.

There seem good grounds for forecasting that the application of electronic machines in all of the activities that we have just discussed is going to expand. In part this will be brought about through intellectual pressure in management, but the main flood will be released by economic necessity. How long it will take to affect Canada's economy is not easy to assess. It has been estimated that the present rate of development in the United States amounts to doubling annually the use of machines. If we accept five years as the period required for the United States practice to be adopted on a significant scale in Canada it might seem safe to predict that in the quarter century of Canadian growth which the Royal Commission was directed to examine, only the latter half of that period will be seriously influenced by the effects we have indicated. Nevertheless there are already signs of business development in Canada by United States engineering firms bringing into this country an enthusiastic





appreciation of the future of electronic devices. It may be prudent, therefore, to qualify our estimate in this respect and warn that the significant effects of these machines may develop in Canada even in less than ten years. Since at that time the population attaining school-leaving age will have reached the high level that is now engaging the concern of university administrations, it should be evident that in planning for the future the potential transformation of opportunities for employment should be taken into account.

(i) We should undertake now to encourage young men and women to undergo training in general understanding of the uses of machines so that there will be created the staff of competent instructors that will be required to meet the demand first in night school classes and later in technical schools, engineering colleges and universities. Since these teachers should be university trained, so as to emphasize the role of understanding as opposed to technical training in the operation of particular machines, it is evident that in the universities formal instruction in the principles of computing controlling and data-processing machines and their applications should be instituted in appropriate professional and honour courses as soon as practicable.

(ii) At a more advanced level, interest in these matters should be encouraged also. It may be found that just as industrial and scientific research is made available to industry through the National Research Council, the needs of many businesses interested in using modern aids, but not having the staff to conduct their



own investigations of possible systems of operating in their own work should be met through a government organization modelled on the National Research Council but concerned with economics, computing and automatic systems. The services of an expert staff could then be purchased by private organizations seeking unbiased technical advice. At the same time government would be aided in the analysis of its own technical problems connected with mechanized operation in the work of its departments.

Another function of such a body would be to stimulate and govern the financial support on a national basis of research in economics and other social sciences in which, without machine aid, statistics cannot be effectively managed.

(iii) Since we stand now at the opening of a new era, now is the time to put in hand well-considered plans to provide for the new things. Much that should be done resembles what was required to adjust the nation to the impact of science earlier in the present century. The important new factor is the acceleration of change in the fabric of economic organization. It seems now for the first time in history that man has the means to give his intelligence time to cope with the effects of his own inventions, and to overcome some of his economic difficulties by the techniques that have produced the remarkable achievements of modern engineering. These techniques rest on well-established physical theories which are applied through mathematical analysis and electronic computing.





There is already sufficient evidence on which to build confidence that economic control can be managed in like fashion wherever the information on which the system of control is to be based is adequate and timely. Accordingly investment now in such economic research is highly desirable to gain experience in the operation of limited systems in relation to theories of control, to find out how well techniques based on computing and data-processing machines work, and to stimulate academic economists to a proper appreciation of the new subject that lies open to them. We have advanced a proposal for putting economic research on a good footing in Canada, we suggest that some such plan be initiated immediately by the Federal Government.

(iv) In our judgment the main effects of the wide use of machines will concern the kind of work done in large cities. Clerical work as we know it today will almost certainly disappear in a generation. It will be necessary therefore to alter the educational curricula in practical courses leading to office work; it will be necessary to make plans for training many men and women to cope with new environment in their daily work. Parents should be informed of the new opportunities for mathematical talent. The value of technical training after school leaving should be emphasized to the public and the facilities for acquiring it should be enlarged. Provincial governments in their responsibility for education must give attention to seeing that no young person with the talent to benefit from advanced instruction in mathematics or engineering is prevented from doing so by financial need.



The conclusion of our submission is a substantial quotation from a United States journal which I think puts the matter in a very dramatic form.

THE CHAIRMAN: Thank you very much,

Dr. Watson. It seems to me in your brief that you felt that business men in Canada are not as aware as they should be of the potential advantages of using electronic computers and then on page 9 of your submission the part that you just read, you said that: "Nevertheless there are already signs of business development in Canada by United States engineering firms bringing into this country an enthusiastic appreciation of the future of electronic devices." I have a feeling that the business community in Canada is not quite as uninformed about the potentialities as we may think. Certainly recent experience of a firm that I know of, showed that there was a tremendous interest in the use of computers. It seems to me that the university here has given the lead in the work that you have done with the machine that you have and we will find that Canadian business men take advantage of these methods and machines as soon as they can get the equipment and as soon as they can get, as you very properly point out, the people to run them, to explain something about the theory as well as just where they should put the oil in and whatever you do to it.

I just have the feeling that there is a little more knowledge about the potentialities than the impression that you gave me.





DR. WATSON: Do you want me to comment on that?

THE CHAIRMAN: Certainly.

DR. WATSON: I have emphasized the role of mathematical thinking. I have found in my experience that there is much interest in the machinery and the gadgets. I am thinking of the needs of very special people in this business and the need to make sure that where mathematical talent turns up some of it at least is going to be directed where it is going to be some good to the country and I have not seen many signs of that happening.

MR. STEWART: Is that the fault of industry that we are not developing this mathematical talent?

DR. WATSON: Well, put it this way: It is one thing to make money, it is another thing to do a job the way you think it ought to be done and up to the present it has not been possible to carry out mathematical work without a computing machine that was much use to business. I think this should be admitted. But the role of research in which the business man looks on his business as something to be examined the way that an engineer looks on a structure or machine or process and subjects it to an examination in order to find out what happens when he changes theories and conditions, on a machine has not been followed in business.

I am in rather a difficult position, Mr. Chairman, here, in that I have information which is confidential and which I cannot disclose today but which





I have in mind when I make these remarks.

THE CHAIRMAN: Well, as far as the shortage of people who are trained in higher mathematics is concerned, I would think everybody will agree with you on that substantially. I do think, though, that on the lower level people do appreciate that the new gadgets, as you refer to them, can do a job which really cannot be done any other way without tremendous expenditure of time and effort.

I think that a number of people in Ottawa are becoming conscious of the fact that the very considerable amount of paper work that has to be processed in government departments perhaps can be simplified and streamlined if they were more intelligible about the use of these activities and this Royal Commission has enlisted your services to do some processing at the university here for us, but I think it would be useful perhaps for us to get some idea of the possibilities of the use of computers if you would just spend a minute or two in outlining the kind of work for which computers may be used both in industry and perhaps in any economic planning in government circles; in other words, I am trying to get you down to our level.

DR. WATSON: Well, let us consider the problem which is usually referred to as linear programming. Suppose that one is concerned with the best choice of distribution of production among a number of manufacturing plants in order to meet a given geographical distribution of demand. There, the principles that go into the calculation are pretty well



known to the company but what they are not able to do without a computing machine is to explore which is the optimum distribution. This could only be done by carrying out a mathematical operation to get economically at the rate necessary. If one, for instance, had something of the order of 20 different places to which one wanted to send the goods to be distributed, it might very well be that you have 20 equations and 20 unknowns to solve. This is the kind of thing the machine can handle extremely painlessly. In fact, this kind of answer could be got sufficiently quickly that it would be a normal operation in the course of business. It is not something that requires a Royal Commission to get the answer to it.

MR. STEWART: What if the quantity should be a function of price?

THE CHAIRMAN: If we are going to be replaced by machines they might pay us conversion compensation.

MR. STEWART: What if you didn't need functional relationship of quantity and price, what would you do?

DR. WATSON: I am not advocating that the machine is a substitute for judgment. No one has ever claimed that a machine could make judgments except those judgments which you place in it in a programme and you have obviously got to make use of information of this kind which is based on the best judgments you can get but nevertheless a lot of that judgment is based on experience and these machines can integrate





for you by going through past records. In fact, it enables you to keep records which are right up to date and consequently you don't need to use all the information.

MR. STEWART: I had a particular problem which I would like to know whether the machine could handle effectively. Supposing the Bank of Canada wanted to know the effect of raising the bank rate and when it should do that, do you think it would be of any help to the Bank?

DR. WATSON: Mr. Chairman, I protest; I am a physicist. This is exactly the point I made. I am urging that the machine provides techniques which should be used by the people who know, the economists or whatever it is. All we are doing here is to make a plea for exploring what can be done. We don't really know what machines can do. We have not explored this as much as it is going to be explored, but I don't think it will be possible really to employ machines effectively and economically unless you carry out these investigations and find out.

For instance, suppose one took the records of some large company which is operating at a very large level so that we have got a tremendous amount of information so that in effect you would not indulge in this unless you had a machine and you went to the machine and proceeded to consider what would have happened to the company if its policies had been different in carrying out its affairs, would the profits have been less or more. On the basis of this information you could



ascertain whether one policy would have been more effective than another. This is surely a piece of information which would be very useful to management. The computing machine makes it possible to get this fairly painlessly.

MR. STEWART: But in any particular situation it would probably require a long period of experimentation to determine just how useful in your setting the machine would be?

DR. WATSON: There is nothing different in this. This is how science goes, this is how engineering goes. You put a small bit of money in and when people play around and find what happens and then if they have an idea of what is going on they are able to talk about something different. The Chalk River pile that was put up in 1946 was braced by an angle affair which was upheld by very low piers but which gave them very good confirmation that the notes on which the bigger pile was designed were correct. This is a principle of the pilot plan and it seems to me the computing machine's increased use in this same idea can explore possibilities.

In regard to the question the Chairman asked I would like to draw attention on page 6 where allusion is made to a number of matters which have been taken up in the United States in a series of questions:

"What is the most economical way of distributing power from hydro electric and other sources?  
How should the interlocking problems of flood control and economic hydro electric power generation be solved on an adequate regional





"scale? Can the problems of grain storage and transportation be tackled to the national advantage? How can the management of our forests and fisheries benefit from improved methods of handling the large amount of information relating to them?"

Surely these are problems you could not have any benefit on at all unless you had very, very considerable computing resources. This matter has been looked into in the United States. It does not cost such a tremendous amount of money to do it, but the thing is we will be very much better off as a result of these investigations. I have tried to encourage young men to get interested in these matters and I find in the case of those who have to take actual decisions, of course, they have had a good exploration in detail as to various possible schemes for getting these things in a long range way.

MR. GRAUER: Well, this process of experimentation that has been referred to, surely that price will be cut down largely between outfits that manufacture these machines and the business of the individual community that goes on all the time. At the present time if you have certain problems which you are interested in working out, you go to the manufacturer and discuss the possibilities of the machine which will meet this problem. That is, if you are doing enough. These machines are very costly and I wanted to ask you what is the situation with respect to smaller units? In my company, for instance, we have been very closely in touch with this from the beginning. I don't know how





you could fail with the amount of literature that has been written on the subject and the particular manufacturer we work with is I.B.M. They say that for quite an area of potential use machines still have not been got down to probable cost, if not efficiency, where it would be worth while to instal them. I suppose the trend is that they will get smaller and smaller units that will be efficient in time because it is the same with General Motors or General Electric in smaller units.

DR. WATSON: I should like to say this, that as soon as the number of machines increases to a certain level, the price of the machine is going to come down. I think there is every indication that that will take place. Certainly you are right in saying that for many purposes you do not need a large machine but if you are concerned with using the information which is contained in your figures for the purpose of anticipating it in any way I have indicated, then you will certainly need more than the minimum type of machine and perhaps you can buy enough of a big machine in order to process a calculation which will give you the information you want.

At the present time the Ontario Hydro has facilities for computing which are not as large as we have at the university. They do a large part of their computing on their own machine and bring only parts of calculations for our machine feeding them in on punched cards. They feed them in on punched cards and take out the answers on punched cards. It is only for big



operations they come to the big machine and since it is possible to process information for a big machine over a telegraph line it seems to me there is no difficulty about this. You don't need to have a proliferation of large machines because the time required to get an answer is half an hour or twenty minutes. You can put the call through and get the answer back by telegraph line.

MR. GRAUER: But with regard to your rather striking statement that methods of before will have disappeared in 25 years presumably there will be a development of smaller units which will have an effect upon clerical work.

DR. WATSON: That is a remark, I may say, which is a poetic gesture. We have got to be honest about the whole thing. The fact of the matter is we really don't know what is going to happen. All we can say is that if one looks back 50 years to what was going on then and looks around to see what there is today, you can be pretty certain that the world 25 years from now is going to be very different than what it is today.

MR. GRAUER: We are getting a certain facility for recognizing a sweeping gesture.

MR. STEWART: Your stress on opportunities for mathematical talent, we have had so much representation to us from all sides that there is a scarcity of mathematical talent, engineering science, technicians and so on, it seems almost the problem should be the reverse, whether here is another opportunity for mathematical talent on top of all these we have had





which are not being supplied and how are we going to get more mathematical talent. That seems to be the basic problem.

DR. WATSON: Well, I think you should ask Professor Gotleib to answer that question because he has something to say about it.

PROF. GOTLEIB: Well, the question is certainly common to a large area of which this is only a part. Even though we develop people, you might say, in this training, we ourselves suffer from the shortage and we have often been tempted to adopt measures which really amount to a re-shuffling of people who are already in the business. This does not help in the long run; in other words, if you take people who are perhaps going into mathematics in the university and divert them out of perhaps reactor engineering into computing, this might help computing but it does not help the overall picture very much and I don't think there is any question but that the appeal has to go back further than the entrance to university and high school.

The more you look at this the grimmer it looks because it is well known that a very large percentage of the qualified teachers in mathematics, the specialists, will retire within the next five to ten years and the rate of new specialists does not even meet the requirements to say nothing of what we feel is the great increase necessary.

I think this is going to take a very concerted effort and it is almost too late to start in,



it is certainly not too early, to encourage young people to take mathematics in high schools and to encourage specialists in high schools. I know you have had a great deal of this already but I think whatever hope we have lies in tackling the problem as early as possible.

MR. GRAUER: Yes, we will certainly have to do more than we are doing at the time.

DR. WATSON: May I ask this: what does the business man say to the suggestion? Perhaps some of the business men would learn mathematics.

THE CHAIRMAN: Too late I would say.

MR. GRAUER: You have to keep an open mind on these things if you are not a specialist; otherwise, you will have somebody selling you the idea that clerical work will disappear in 25 years.

THE CHAIRMAN: I think you would find in the business community that there was an increasing awareness that business will require people who have a thorough understanding of mathematics. I was being facetious when I said if you suggested to the retail business man like myself that he should suddenly get down to learning higher mathematics he would say as far as he was concerned it would be too late.

But I do think there is some appreciation of the problem, but in the light of how it is going to be solved, Dr. Otto told us the other day that he was not too concerned to date anyway about recruiting elementary school teachers for Ontario but that he was most concerned when it came to teachers in the





secondary schools and particularly when it came to people who teach mathematics.

MR. GRAUER: Your suggestion of a government organization modelled on the National Research Council which would operate in this field might work at top level for larger developments but surely we could expect a proliferation of that sort of thing when we have in mind how extensive the economy is and we would expect to see the field where we might very well have what we are having now in the way of innovation followed up by other contributions -- companies having a sales organization which would take care of it in the various communities by some form of private enterprise which would assist in the way of providing service. But it is going to be a much wider service than could be supplied by one individual organization.

DR. WATSON: Surely what you say is all right but one could use the same argument about the National Research Council. The National Research Council is engaged in researches which are done for the purpose of finding things out and when you come out after finding these things out you have got to pay the price that is required to find out, not to say: "We have got only \$25,000 to put into this, we can't expend another \$25,000". You have got to pay anything. That is not the way research is done. You have to go on and get the answer and it may be it costs more than the estimate in the beginning. This is one reason why you have to have the government of the country sold on many things. This has happened in the past in research and it has paid off





in the long run. But immediately you can't do everything on the basis of keeping solvent. Just what would happen to a business firm? It could not afford to do such a thing.

MR. GRAUER: Well, I think government tries to be solvent. I think we are looking at the same thing from two different ends. Certainly you have a National Research Council but most businesses of any size have research departments and you have regional research councils in various big cities and that sort of thing. That is what I am saying, you would have to get down to a much closer level with the individual business in the individual community than simply a national body.

DR. WATSON: I am not emphasizing the national body. I was only using this as a possible hook on which to hang the thought that some organization understand the analysis for the sake of understanding what the things really do. It is rather like what goes on in pure science where your main effort is directed to improving understanding and is not aimed at immediate economic reward.

MR. GRAUER: I think from our point of view the most essential part of your statement is the tremendous stimulating effect this development is going to have on the economy. It is very hard to measure as you point out. In fact you can't measure it at this point so it is one of those constructive elements in this situation. We have been talking about tariffs and so on which have their unjust as well as their just side



but this has a totally constructive effect, but certainly you will have employees particularly speaking through their trade unions who will wonder what the effect upon employment is going to be of this. You already see signs of this. I don't suppose that is a field that you particularly wish to comment about?

DR. WATSON: No, sir.

DR. GOTLIEB: May I reply on the point of government and the interest in such activities in pointing out what has happened in the United States, that there is no question that the advisability of this whole programme is due to diversification in it. The fact is there are a good many institutions interested in it, government and university and industrial. Yet the government push -- and this I think is the right word -- has been very large in the United States. As a matter of fact a machine was built to the specifications of the Bureau of Censors and the Bureau of Standards have in fact been a leader in a great many planning operations. The first large inventory control study was done on a computer at the Bureau of Standards. The Mississippi River problem was done with the standards people referred to in this report. This is not to say they have provided the only impetus at all but they certainly have been the important ones and it is hard to say where the whole programme would be without government or without university or early scientific research and this is when the businesses all are making the machines and selling them. It doesn't mean that the government computing has been the only one, but it certainly has been a very, very important one.





MR. STEWART: Dr. Watson, coming back to the question of mathematical talent it rather seems as if there is a native aptitude for mathematics which varies considerably in degree between individuals and some people have this, it seems, in a native sense to a very considerable degree. Do you think it is possible, say at the age of about 12 or 14 to detect the measure or degree of aptitude? I am thinking of some way we can get at these people who have this specially developed aptitude?

DR. WATSON: I was expected to be an economist; now you think I am a child psychiatrist. This answer I am going to give has no weight whatever. I would just like to remark that talent in human beings shows at all ages and if a boy has really got something on the ball intellectually it will be showing very definitely by that age in most cases and provided the teachers are given an opportunity to find out something about their pupils there should be much better opportunity in finding this out. I have had some experience of seeing pupils who are trying to do mathematics who have obviously never seen anyone who could do mathematics. It is quite obvious in spite of the fact that they were at university they did not have an idea of what mathematics was like and that is the idea of teaching but as far as those bright fellows you are talking about they will be bright any time anywhere.

MR. STEWART: But the teacher who is handling a class room of 40 youngsters who have very considerable variation in this particular aptitude does not have a



chance to develop the capacities of the really bright youngster.

DR. WATSON: We talk about developing the capacity of the bright youngster. I ask you why do we worry about those? There are many people who are so bright that in spite of every obstacle they succeed in going through.

MR. STEWART: That is true but it does not prove we are not losing a lot who have it.

DR. GUSHUE: Just one question. I take it you think it is important that the federal government ought to recognize the potentialities of this and to institute some plan?

DR. WATSON: It is to bring economics and mathematical talent together. That is what we are asking for and by research which is not directed to minimum economic questions at all but to develop some acquaintance with these techniques, find out what you can do, consider academic problems which are reasonable problems so as to acquire confidence in using the method and find out what can be done by means of machines. It is quite possible that our ideas of using machines today are really ridiculous, that there are inventions being made which are going to make what we are doing today look foolish but these inventions will come along as a result of those who are interested in using the technique and experimenting.

MR. GUSHUE: And the tools?

DR. WATSON: Yes.

THE CHAIRMAN: Well, we are very grateful to you both. This has been a most interesting submission





and I have enjoyed it particularly. I understood you were reasonably enthusiastic about the potentialities of these things. You have not given me any reason to change my mind.

--- Recess

--- After Recess

THE CHAIRMAN: Shall we come to order, please, gentlemen?

MR. GRAUER: Mr. Glasco, the members of the Commission would like to thank you through me before we start and to tell you how much we are indebted to you for both the summary of your own views upon the taxation system insofar as it affects Canada's economic prospects and the big report that you and your partners did on taxation relating to investments in Canada. This work has been done by you and your partners and therefore the Chairman has an understandable reticence about addressing the remarks to you which I am.

However, we know particularly in a professional firm where every minute of the day counts what a great intrusion it is to ask you sort of off the cuff to undertake a study which we say will take a certain length of time and it takes about ten times that much and we do appreciate the great effort you and your partners have put into this.

MR. GLASSCO: Thank you very much, Mr. Grauer. I think the Commission has met my partner, Mr. Richardson, and I, if I might, would like at this time, Mr. Chairman, to also present to the Commission two of our senior assistants who have had a





great deal to do with the preparation of this work -- Mr. Earl Horser and Carl Gibson. They are the people who have done the slaving and I can assure you there has been quite a lot of it.

THE CHAIRMAN: Incidentally, we will mark your memorandum which you are about to read as Exhibit 166.

The more detailed study is one of the studies which was carried out for the Commission and which will be included with its published report and not recorded here as one of the exhibits.

MR. GLASSCO: In accordance with a request received from the Chairman in July last, there has been prepared and filed with the Commission a study of the tax rates and policies which may have influenced investment in Canadian industry. Such study embraces not only Canadian taxation, but also, to the extent relevant, the taxation systems of Great Britain and the United States. The study also deals with certain non-tax factors which have contributed to the pattern of foreign investment in our industries since the last war. Some indication of the nature and scope of the study is provided by a recital of the principal chapter headings: these are

I the Statistical Background

II Factors other than Canadian taxation affecting investment.

III Canadian taxation of non-Residents

IV United States Taxation policies affecting United States investment in Canadian and other foreign enterprises.



V The taxation of the extractive industries in Canada and the United States

VI Aspects of Canadian taxation which create difficulties in the Canadian ownership companies

VII Interpretation and administration of Canadian Income Tax Law

It will be appreciated that this subject is a very large one and a considerable number of people have been engaged in the preparation of this study, as Mr. Grauer has so kindly mentioned. These include our partners and senior assistants in the Toronto, Montreal and Calgary offices of Clarkson, Gordon & Company, and my associates in the London, England, and New York offices of Arthur Young & Company. May I say that my partners and associates are happy to make this contribution as a matter of public service, and I hope it may prove useful to the Commission.

There can be little doubt that the course of world affairs since the end of the war has brought into play certain very important influences, economic and political as well as financial, which have had a great deal to do with the growth of foreign investment in Canada, and in particular, the very rapid acceleration of such growth in the past five years. Such factors are well known to the Commission and it is probably true that in the aggregate they exert a far greater influence than the attraction of a favourable taxation climate. While, therefore, it would be wrong to assert that tax considerations were primarily responsible for the growth in foreign investment in Canada, it is undoubtedly true





that in two ways at least, taxation has played a considerable part in shaping the pattern which has developed.

The great majority of the recent increase in foreign investment in Canada has come from the United States and it is evident that the taxation pattern in that country, particularly since 1950, has provided strong incentives to the investment of capital in other countries. In particular, the excess profits tax re-enacted at the time of the Korean war in 1950 and in force until 1953, brought about a situation where profits otherwise taxable at rates as high as 82 percent could be used to blot up preliminary losses resulting from development of new businesses. In the case of the petroleum industry in particular, a good deal of such money found its way into Canada.

The second important taxation influence has been the impact of our tax system upon the owners of Canadian businesses, rendering it difficult in many cases for them to retain control. While certain aspects of our tax structure provide incentives to investment in equities, the perennial problem of the joint impact of income tax and succession duty continues, in spite of numerous attempts to alleviate the problem, to provide a strong incentive to owners of small and medium-sized businesses to part with their investment in old age or when death occurs. It is worth noting that the attempted remedies have all been designed to modify the income tax part of the problem, by making it easier or cheaper to withdraw funds to meet succession duties: nothing has been attempted, however, to relieve the financial crisis



which our system of succession duties creates when a man, having built a business through a lifetime of effort, reaches the end of his days.

May I discuss a little more fully certain aspects of these two forces in relation to their incentive qualities and attempt to indicate where changes might be made in the national interest.

There is obviously nothing which we in Canada can do to control the incentives which other countries offer their citizens, and some of the suggestions which have been made, that we should be prepared to grant our taxpayers identical treatment, are not completely practicable. As the Commission will realize, the taxation systems of Canada, Great Britain and the United States have important and fundamental differences one from the other. Stated briefly, the main variations from our Canadian system are, first, that in England the standard rate of income tax paid by the corporation is deemed to be a payment on behalf of the shareholders and the dividends actually distributed are not again subject to tax in the hands of the shareholder, except as to the surtax (which is admittedly heavy). In such circumstances, of course, there is no occasion for a dividend credit such as is incorporated in our law. Secondly, in comparison with the United States, probably the most important difference of our system is that we refrain from the taxation of capital gains. Some specially favourable aspects of the United States law must, therefore, be viewed in relation to the existence of a scheme of taxation of capital gains, and there can be no doubt





that such has a profound bearing upon the form and behaviour of the typical United States business organization.

While, therefore, an attempt by Canada to match incentives given <sup>in</sup> other countries presents considerable difficulty, it is obviously possible to amend our own taxation structure in a number of respects, so as both to improve somewhat the lot of the Canadian owner of a business, and also to direct or influence the form of non-resident investment in this country.

It was suggested that it might be helpful for me to lay before the Commission some of the points to which consideration might be given with these objectives in view. They can best be dealt with under the following three headings:

(1) Possible changes in the taxation of income earned in Canada by non-residents,

(2) Changes designed to increase Canadian investment in equities and render it easier for Canadian owners to retain their investment in business, and

(3) The special problem of oil and gas taxation.

The basis of taxation of corporate interest and dividend payments to non-residents is discussed in some detail in the study which has been filed with the Commission. So far as investors in the United States and the United Kingdom are concerned, the rates of tax are governed in part by treaty, and at their existing levels the Canadian taxes on such payments do not constitute in any way a deterrent to investment in wholly-





owned Canadian subsidiaries. This is because no tax whatever is withheld on dividends paid to United Kingdom parents of wholly-owned subsidiaries, and the 5 percent tax rate on dividends to United States parents is wholly absorbed against the higher United States tax rate on corporate profits.

THE CHAIRMAN: I wonder if you would like to just explain that fact, that 5 percent withholding tax.

MR. GLASSCO: Well, the corporate rate on the profits in this country is 47 percent and in the United States it is 52 percent. Thus, an American corporation receiving dividends from a wholly-owned Canadian subsidiary even though the 5 percent withholding tax has been deducted and paid to the Canadian government on the dividend, is entitled to deal with his United States tax problem in this way; the tax is taken into his income and taxed at 52 percent. He is then entitled to credits against that for taxes paid to Canada in the form first of the withholding tax of 5 percent and certainly of the 47 percent tax which was paid on the profits from which the dividends flowed. So in total he receives tax credits from the United States Government of 52 percent which exactly offsets the United States tax which arises from receipt of the dividends.

THE CHAIRMAN: Thank you very much.

MR. GLASSCO: In contrast to this advantageous treatment, the higher withholding rate of 15 percent imposed on dividends of Canadian companies



which are not wholly-owned (or where the United States treaty applies, are less than 95 percent owned) creates a substantial penalty where any significant minority exists. I should perhaps make that clear by explaining that our Act provides that this 5 percent rate applies in the case of a wholly-owned subsidiary and this is really when a substantial part of the common stock excepting qualifying shares are owned by the parent but under the treaty with the United States that percentage of ownership is modified so that as long as the corporation abroad has as much as 90 percent instead of 100 percent it will qualify for the 5 percent. This constitutes a real deterrent to permitting participation by Canadians in foreign controlled Canadian business; and to those who argue that such participation should be freely offered, the non-resident owners at present have a practical answer. They can point out that our Canadian tax laws are so drawn as to penalize a company when it grants the right of participation to Canadians. If, therefore, such participation is in the public interest, and there are cogent reasons why this is so, it would appear only logical to abolish the discrimination which now exists.

If in removing this discrimination between wholly-owned and partly-owned subsidiaries, it is desired to continue to differentiate between causal investors abroad and corporations which in effect control Canadian businesses by taxing dividends at different rates, it becomes necessary to define the extent of stock ownership which will for this purpose qualify the foreign





shareholder as a controlling corporation. A reasonable level, having in mind the desire to encourage Canadian participation, should certainly be no higher than 50 percent, and it might be advisable to drop the percentage still lower. Where the situation is reversed and we grant preferential tax treatment to Canadian companies in respect of businesses abroad which they control, the minimum percentage of ownership which our laws require is 25 percent.

The most common form by far in which foreign owners carry on business in Canada is through a Canadian subsidiary company. Our scheme of taxation provides for the payment of tax by such subsidiary on the same basis as any other Canadian corporation and, in addition, we impose a withholding tax on dividends sent abroad. There is, however, a considerable (and growing) volume of investment in Canada by non-residents who, instead of incorporating Canadian subsidiaries, operate in Canada as foreign corporations. In fact, in some important cases, such foreign corporations carry on their entire business in Canada. In these circumstances, the profits earned by such corporations in Canada are taxed in the same manner as are the profits of Canadian companies, but there is no additional tax upon the movement out of Canada of their profits, similar to the withholding tax on dividends paid by the Canadian subsidiary. It would seem that consideration might be given to removing this inconsistency. So long as it remains, it will obviously serve as a deterrent to Canadian participation in foreign controlled business in Canada. The imposition of a



withholding tax in these circumstances does, of course, involve practical difficulties but it is worth noting that in certain other countries the scheme of withholding taxes extends to the profits of foreign corporations operating within their borders. In the case of a foreign company which carries on only part of its operations in Canada, there is a problem of identifying dividends paid from Canadian earnings. If a decision were made to impose tax, it might be necessary to follow the practice of certain other countries and deem that a dividend was paid each year, equal to the Canadian profits of the foreign company.

Turning now to withholding taxes on remittances abroad of other than dividends and interest paid by corporations, it is suggested that the whole scheme of these taxes should be re-examined, not only in the light of certain anomalies referred to in the study, but also taking into consideration the extent to which these taxes might be used to direct foreign capital into certain specific types of investment. Consideration might be given to the possibility of offering positive inducements by way of tax concession to at least three classes of investment where increased foreign participation might be desirable.

The first of such areas is the financing of provinces and municipalities. No Canadian withholding tax is imposed on interest on Government of Canada bonds, nor is any tax withheld on interest payable in foreign currency on municipal and provincial bonds. However, where this interest is payable in





Canadian currency, withholding tax is payable at the rate of 5 percent on interest on provincial bonds and at 15 percent on interest on municipal bonds. The financing of provincial and municipal expenditures in this growing economy presents a formidable problem. Consideration might, therefore, be given to exempting all interest on provincial and municipal bonds from the payment of any non-resident withholding tax. So far as individuals and fully taxable corporate investors are concerned, the elimination of this tax might have no more than a psychological effect because, in the main, the tax now withheld is recoverable as credit against United States tax. There is, however, a substantial volume of funds available for investment by non-taxable organizations, pension trusts, charitable institutions, regulated investment companies, and so on. There is also a very large volume of investment by United States life insurance companies which pay a relatively low rate of tax (from 3-3/4 percent to 6½ percent on investment income) and which consequently are not in a position to recover fully a 15 percent Canadian tax. There would appear to be a possibility of attracting considerable United States capital to this class of investment, particularly as in the United States interest on state and municipal obligations is completely free of income tax, with the result that yields are extremely low and such investments are unattractive except to those taxable in very high brackets.

The second possible change in our withholding taxes relates to the income from investment in



real estate. At present the 15 percent withholding tax applicable to rentals is applied to the gross income, without any deductions for depreciation, taxes, repairs, insurance or mortgage interest. There is, however, an option under which the non-resident investor may file a Canadian tax return and pay on the net income at the same rates as a resident of Canada; this is equivalent to treating the investor as though the ownership of real estate represented the carrying on of business. It is suggested that the ownership of real estate by a non-resident might be regarded simply as an investment, and for that reason the normal withholding rate of 15 percent should be applied to the net income from the property. Such a change might have the effect of attracting substantial amounts of foreign capital to this form of investment.

The third possible change in the taxation of foreign investment is suggested by the obvious need of capital to help finance the very large development of housing in Canada. Until the 1954 amendment of the Bank Act, which permitted banks for the first time to invest in government insured National Housing Act mortgages, most of the funds required for National Housing Act housing were provided by life insurance companies. At December 31, 1953 almost 25 percent of the assets of Canadian life insurance companies was represented by mortgage loans, and for some years a large part of the increase in the assets of life companies has been represented by these loans. It may well be in the public interest that we should attempt to direct foreign capital





into this area, and, if so, consideration might be given to providing a suitable incentive. Non-residents can, of course, under the present laws, limit their tax liability on interest income to 15 percent by the formation of a "non-resident-owned investment corporation". If a further incentive is to be offered, one might consider granting a lower rate of tax, say 5 percent, on a special type of company which would meet the present requirements of a non-resident owned investment corporation, with the additional stipulation that the income of the company consist principally of interest on National Housing Act mortgages.

I would like to turn now to the second group of changes which might be considered. These changes would apply to the taxation of Canadians, with a view to increasing their participation in equity financing, and rendering it easier for Canadian owners to retain control of their own businesses.

I should first mention briefly two non-tax factors which have a considerable importance in determining the manner of investment of the savings of the Canadian public. I refer to the prohibitions and restrictions against investment in equities of businesses, under the Trustee Acts of the several provinces and the federal law relating to life insurance companies. The restrictions placed upon the investment powers of trustees are admittedly very important, and I would hesitate to make a categorical recommendation that any broad power to invest in equities should be granted. It is, however, true that in many provinces the trustee



legislation has been in force for some years without any change, and as a minimum, it would appear reasonable to suggest that the whole question of trustees' investment powers should be reviewed in the light of the changed condition of our economy. It might well be found desirable to authorize, in certain circumstances and with appropriate safeguards, a limited power of investment in certain classes of business equities.

In the case of the investment powers of life insurance companies, the question must arise as to whether the existing limitation, that investment in common shares may not exceed 15 percent of total assets, is not too restrictive. Admittedly, the last published data show only about  $5\frac{1}{2}$  percent of the assets of Canadian life companies invested in stocks of all kinds and no one company was close to the 15 percent limit on common shares. It is, therefore, debatable as to how quickly any easing of the present restrictions might bring about any significant change.

The study contains a reference to pension funds. Under the existing rules of the income tax department, the restrictions applicable to life insurance companies are imposed upon pension fund trustees. There are two comments on this situation; first, the over-all effectiveness and ability of pension funds to provide reasonable benefits in old age will be greatly enhanced if a hedge against inflation is obtained by investing a significant portion of the fund in equities. Secondly, if after full consideration, it be decided that the present rules should remain unchanged, it would be





preferable to have such laid down by legislation rather than arise through the exercise of administrative discretion. It need hardly be pointed out to the Commission that the pension funds of Canadian business and institutions represent a most important potential source of investment funds which, if directed in part into ownership of Canadian business, would certainly tend to check the increasing dominance of foreign investment.

The Income Tax Act contains in Section 69 special provisions for the taxation of investment companies which meet the tests therein laid down. These conditions were considerably altered in the 1955 amendments of the Act and in the course of making these changes, certain strong incentives to invest solely in Canadian equities were lost. While it is still a condition that such companies must obtain a minimum of 60 percent of their gross revenue from dividends of taxable Canadian companies, it is now open to them to so invest their funds that the other 40 percent of income may come from foreign dividends or foreign interest. In spite of this, the special tax of only 20 percent will apply and most of this will be recovered by the shareholders by way of dividend credit. A possible method of encouraging investment in Canadian equities beyond the minimum level now required, and at the same time discouraging investment in foreign securities, would be to create an additional requirement that in the aggregate not less than 95 percent of gross income must be derived from Canadian sources. This would still permit an investment trust to keep a substantial part



of its funds in high grade securities, and I should make it clear, Mr. Chairman, that this suggestion referred only to the rather highly specialized type of companies dealt with in Section 69. I am not advocating any widespread coercion of our industrial trusts.

One other possible change concerns the participants in profit sharing funds, the assets of which in many cases are invested in equities. To qualify as "profit sharing funds" under the Income Tax Act, all of the income must be allocated each year to the individual participants and they are taxed accordingly. There is, however, no provision whereby the benefit of the 20 percent dividend credit on dividends from taxable Canadian corporations, can be passed on to the participants. This situation should be corrected as a matter of equity.

Turning now to the more important problems which arise on the purchase and sale of Canadian businesses, there are several possible ways of changing our system of taxation which might tend to maintain Canadian ownership. First and most important of these changes relates to our succession duty laws. A major problem which has faced individual owners of Canadian businesses for many years lies in the double impact of succession duty and income tax. The Commission will be familiar with the problem of a man who, having built up a business, reaches old age with substantially all of his estate represented by his ownership of the business. Our income tax laws lay heavy tax upon the monies withdrawn from the business,





even upon a re-organization or winding-up, and the essential need of money to satisfy succession duties, actual or prospective, has undoubtedly led many such businessmen to sell out. A number of attempts have been made from time to time to provide relief for this problem. In spite of that, the sheer weight of our succession duties continues to constitute, in many cases, a very strong incentive for private individuals to sell businesses which they have created.

A most substantial form of relief exists in the United States law, under which an individual can leave up to 50 percent of his estate to his wife (or husband) free of tax. Where this is done, the total of the taxable estate being cut in half, the amount of duty which the estate must raise immediately is greatly reduced, also the duty is at a slightly lower rate. A similar situation exists in the Province of Quebec as a result of the laws relating to community property. It is suggested that the adoption of such a provision uniformly across Canada would have a profound effect upon the ability of families to maintain control of their businesses.

This suggestion is by no means as radical as it may at first appear. The portion of the estate which goes tax-free to the spouse falls in its turn to be taxed upon the death of the spouse, so that the principal sacrifice of the revenue is in waiting a little longer for part of its duty. The practical benefits of such a scheme in the case of the aging businessman are extremely important. He is provided with a practical



means of providing for his wife after his death and the dimensions of his succession duty problem are reduced very materially. For example, in the case of an estate of \$1 million left with a life interest to a widow and distributable on her death to two adult children, the present succession duty bill will be approximately \$322,000 (slightly more in Ontario). That is on the basis of the Dominion rates in the provinces which have no system of their own. If half the estate were left to the wife tax-free and the other half passed outright to two adult children, the total amount of duty is just under \$150,000. Of course, when the widow dies, the \$500,000 left to her would in turn attract duty of approximately \$150,000. The total duty collected in two stages on the original \$1 million would amount to \$297,000 compared with the \$322,000 payable under the present rules upon the death of the husband.

It should hardly be necessary to point out that, in addition to the contribution which such a change would make to the solution of this problem, there are the strongest grounds for arguing that owners of businesses in every province of the country should be on an equal footing in relation to this difficult matter.

A further disability, relatively much less serious than the major succession duty problem, lies in the provisions of our gift tax legislation. It will be appreciated that in certain cases owners of businesses in Canada have sought to meet their prospective succession duty problem by making gifts to their children to enable





the latter to purchase shares in the family business. In the event that the donor should die within three years of making the gift, under federal law the gift is deemed not to have been made, but the gift tax paid is allowed as a credit against succession duty. In the case of residents of the Provinces of Ontario and Quebec, however, which levy their own succession duties, the scheme for giving credit in respect of provincial duties in determining the federal tax is such that a portion of gift taxes paid may not be allowable as a deduction from succession duty. This hazard certainly tends to reduce the rate at which gifts are made in the circumstances under consideration, and a reasonable cure could be readily achieved by granting credit for the full amount of gift tax paid (within the three years preceding death) against the net federal duty otherwise payable.

Among the prospective buyers for any Canadian business which is to be disposed of are other Canadian corporations and individuals, as well as non-resident investors. In many cases, Canadian investors will seek to use a Canadian corporation as a vehicle for making the purchase and there are two provisions of our income tax laws which may constitute obstacles to such purchase, but which do not handicap non-resident investors in the same manner.

Our law has for many years contained a provision that interest on money borrowed by a company and used to acquire an asset which produces tax exempt income shall not be allowable as a deduction in arriving



at taxable income. Under this rule, it is not possible to obtain a deduction for interest paid on money borrowed to buy the shares of another company, the income therefrom in the form of dividends being tax exempt. While there is at first glance some considerable logic in this provision, it has no counterpart in the laws either of Great Britain or the United States, and there is no doubt that it serves to limit the activity of potential Canadian purchasers of businesses. When one realizes that the interest on a loan usually constitutes taxable income in the hands of the lender, there is a good deal to be said for the justice of allowing the interest cost as a deduction to the borrower. It is, therefore, suggested that our policy in this regard might well be re-examined.

The other and much more difficult problem which faces the Canadian corporate purchaser of an established company is found in the provisions of the law relating to what is called "designated surplus". The essential purpose of these provisions is to prevent one corporation purchasing another and immediately withdrawing by way of tax-free dividends the surplus of the company acquired, and using the same to pay for the acquisition. The technique employed is to freeze the surplus of the company of which control is so acquired by another company and to limit the right to draw out tax-free dividends to profits earned subsequent to acquisition. In a broad sense this appears a reasonable method of preventing the type of abuse which might result from a wide-open freedom from tax of inter-company





dividends in all circumstances. The trouble is, however, that the actual provisions of the law are so broad that the innocent suffer equally with the guilty; it has become virtually impossible to carry out certain inter-corporate transactions, mergers, and winding-ups of a character where freedom from tax on inter-company dividends would be totally unobjectionable. Further, until the 1955 amendments it placed the non-resident corporate investor in a position to carry out with impunity the acquisition of Canadian businesses in exactly the circumstances which the designated surplus provisions of the law were designed to prevent.

I wish it were possible for me to lay before the Commission a simple solution to this problem, and it is to be hoped that continued study by the officers of the Crown may in due course result in such being developed. There are, however, two possible improvements which appear worthy of consideration at this time. First, a limited right might be granted to carry out an amalgamation through liquidation of one company into another without any tax on surplus passing to the senior company, provided that it can be demonstrated that the combined undistributed incomes of both companies still exist in the continuing company. A test which should be met by the continuing company is that its net assets, after deducting any redeemable capital, should be equal at least to the combined undistributed incomes of the two companies prior to amalgamation. It should probably further be provided that the continuing company should not be entitled to a deduction from undistributed income in



respect of capital losses which may emerge on the liquidation of its investment in the purchased company -- if such loss were recognized it would to that extent extinguish undistributed income unless there were capital profits against which it would be offset. This suggestion appears pretty technical but it is designed to facilitate a type of transaction which is reasonably common in our business life and, in the circumstances set forth, unobjectionable from a tax standpoint.

The second possible change is suggested by the 1955 amendments which permit companies to be liquidated into the hands of an investment dealer upon the payment of a special tax of 20 percent (15 percent in the case of a non-resident). It would appear much simpler for all concerned, to cut through the investment dealer technique and provide simply that in such circumstances the recipient company should pay a tax of 15 percent or 20 percent on any dividends which it receives from designated surplus.

THE CHAIRMAN: What is the reason for the lower special tax if sold to a non-resident?

MR. GLASSCO: A non-resident has to pay a special tax of 15 percent in addition to the 15 percent withholding tax. So he really pays 30 percent.

In view of the importance of the subject, particularly in relation to the question of foreign investment in Canada, taxation problems of the oil and gas industry are discussed at some length in the study made for the Commission. The first observation I would





make is that the subject is extremely complex, I am sure that is no surprise to the Commission -- not only because of the many different types of transactions which are carried out, but also because there are important and fundamental differences in the taxation circumstances of the participants in such transactions, depending upon such matters as their place of residence or incorporation, their form of organization, and their collateral activities.

A major criticism of our Canadian tax system has been that it places the Canadian operator at a disadvantage vis-a-vis United States competitors in the Canadian oil fields. An analysis of the facts suggests that this general complaint is based upon several different underlying factors. One important consideration is that the terms of the United States tax laws, particularly within the past five years, have offered incentives and concessions to their taxpayers which go considerably further than any similar concessions available to Canadians. Thus, wealthy individuals and corporations with profits subject to taxation at very high rates have been able to reduce their United States taxable incomes, and thus save large amounts of tax, by making expenditures in Canada in oil exploration or development. Much of the money at risk was tax money, particularly in years when excess profits taxes applied in the United States.

Another major difference between the respective situations of Canadian and United States operators lies in the varying methods adopted by the



two countries in granting allowances for depletion. There can be no doubt that the Canadian allowances are considerably less generous than those available under United States law. A principal objection to the Canadian system is that it requires the writing-off of exploration and development expenses before arriving at the figure upon which the depletion allowance is calculated. As a result, once substantial production is reached, every additional dollar spent on exploration and development will serve to reduce the depletion allowance available. Thus, at a certain point in the programme of a Canadian operator, the method of granting depletion introduces a strong incentive to stop exploration and development. In contrast to this, the United States system provides a continuing incentive to exploration and development because it is based on gross income (with a limitation based on net income before deducting the expenses of unsuccessful exploration), but with an automatic option of cost depletion when it is the more favourable.

The Commission will understand that as far as Canadian taxation is concerned, operating results in Canada of both Canadian and United States operators receive identical treatment. The advantage, therefore, in what is referred to as improving his "competitive position" lies entirely in the manner in which the United States operator is able to reduce the taxes which he would otherwise pay in the United States. This observation relates particularly to the exploration and development stages and it should be added that,





while these initial advantages are never lost, the so-called advantage ceases once the operator has reached the point where income from production has absorbed all the initial costs. From that point forward, both operators will be on an equal footing.

In an attempt to illustrate the extent of the possible variations in depletion allowances and the taxes payable, the study refers to calculations which have been made in respect of an assumed programme having an average degree of success and conforming in other respects as closely as possible to the typical experience in the Alberta oil fields. This assumed programme covers a 10-year period and the depletion to which it would become entitled is as follows:

- |  |             |
|--|-------------|
| (a) Allowable for United States tax purposes   | \$3,729,000 |
| (b) Allowable under Canadian law to a company engaged only in exploration and production           | 1,463,000   |
| (c) Allowable under Canadian law to a company having substantial income from marketing or refining | 1,849,000   |

In calculating the actual taxes payable, the whole range of variation is illustrated by the several assumptions made. Thus, the taxes will vary as shown hereunder, depending upon where and by whom this typical programme is carried out.

- |  |            |
|--|------------|
| (a) A United States company operating entirely within the United States would pay United States taxes of | \$ 682,000 |
|--|------------|



- (b) A United States company which carried out the same programme in Canada, but which had other United States income, would pay combined United States and Canadian taxes on the income from the programme of \$ 900,000
- (c) A Canadian company having substantial marketing income, but no other production income, carrying out the same programme in Canada would pay taxes on the income from the programme of 1,195,000
- (d) A Canadian company having no income from marketing or refining, etc., would pay taxes of 1,376,000

From the above it will be clear that the best possible tax deal for the United States operator will not be obtained by operating in Canada, but providing he has other income taxable in the United States, he is bound to fare better tax-wise than a Canadian operator in any circumstances. The Commission will appreciate that the above calculations are based on only one set of assumptions. In practice, there will be a fairly wide degree of variation, both as to the type of programme carried on by different operators, and as to the degree of success achieved. However, alternative calculations which were made assuming a much greater emphasis on wild-cattling, and also calculations placing much greater emphasis on developing proven acreage, showed somewhat different patterns without, however, in any way changing the basic conclusions.

Among the suggestions for the improvement of the Canadian system, the one which appears to merit





most serious consideration is the proposal to change the basis of the depletion allowance. If the allowance were changed to a percentage of gross revenue, or alternatively a percentage of net revenue before the deduction of any exploration and development expenses, the incentive value would be enhanced and the system should become more logical and desirable, in that the incentive to cease exploration when production was secured would be removed.

A second important change which should receive consideration is to make available cost depletion as an alternative where the percentage depletion proves insufficient to cover the actual costs. Such a move would have obviously important results and improve the so-called competitive position of the Canadian operator, particularly in the case of high cost wells. Consideration might also be given to finding a better method of enabling the operator to write off against income the costs of unproductive and abandoned property, the present provision in this respect being extremely limited.

In discussing proposals to extend cost depletion and broaden the range of write-offs available in respect of unproductive property, however, it is important to recognize that any such change will have an immediate and material effect upon the prices at which oil properties may change hands. Unless appropriate safeguards are developed, there would be an inevitable tendency to bid up the prices of oil properties, and in such circumstances the treatment



of the resulting profits in the hands of vendors would have to be considered. It is fair to say that unless some restraint was imposed in this connection, a serious loss of tax revenue would undoubtedly occur.

The over-all purpose which our method of taxing the oil industry should attempt to secure is that the operator should have a reasonable assurance that all of his costs will be deductible from the revenues which arise from his operations. In addition, there should be some recognition of the special risks and hazards inherent in this industry and it would obviously be desirable that, so far as possible, the incentives offered should apply in their fullest form where the risks are greatest.

It would appear that in its present form our Canadian tax system falls short of these desirable objectives in several important ways, and it would further appear in the public interest that this situation should be corrected as quickly as possible. As has been pointed out, however, there is no simple solution, and before any decisions are made as to specific changes in the law, there is need of most careful study of the subject by competent persons. It is suggested, therefore, that the most effective way of bringing about a desirable revision of our laws will be to set up a special body, in committee or commission form, consisting of from three to five highly qualified individuals, and to set such committee the task of examining the problem in detail. Obviously,





the views of those engaged in various capacities within the industry will be of extreme importance and it is believed that by this method a greatly improved taxation system can be developed. This will have obvious advantages from the point of view of Canadian investment in the further development of the petroleum industry in Canada.

One final suggestion is made regarding the form of incentives offered by our tax laws. The extent to which incentive tax concessions should be made available to non-resident investors is essentially a matter of policy and the technical structure can be adjusted to carry out whatever results may be intended. There is danger, however, that without special safeguards some incentives made available to Canadians and non-residents alike may, as a result of foreign taxation, merely transfer the benefit to the treasury of the foreign country. Our three-year exemption for new mines is a case in point and the benefit of any reduction in Canadian taxes which a United States investor enjoys will probably, under the present rules, be transferred to the United States Treasury through a reduction of the tax credits allowable to the United States taxpayer.

THE CHAIRMAN: Thank you very much.

MR. GLASSCO: Mr. Chairman, if I can be of any help by attempting to answer questions I shall be glad to do so. I am afraid it is rather technical in some respects.

THE CHAIRMAN: Oh, that won't frighten some of the members of the Commission.



MR. GUSHUE: I wish I was as competent to ask questions as Mr. Glassco is to answer them.

MR. STEWART: I have been trying to pursue a particular problem, Mr. Glassco. It has been said that it is possible under certain United States legislation for a United States resident to invest in Canadian development specifically in the oil fields in Canada, thereby putting himself in a better position than if he made investment of a similar amount in the United States. Do you know of any feature of the legislation, today in the United States, which would make that possible?

MR. GLASSCO: Are you thinking of the open end investment trust type of thing? Are you thinking of an individual's particular participation in the oil industry, say, of the order of some of our movie actors or people who have large amounts of money in the oil business?

THE CHAIRMAN: I think Mr. Stewart is thinking of the Western Hemisphere Trade Corporation.

MR. STEWART: We heard this statement made that the United States has made it possible for internationals rather than to invest in the United States.

MR. GLASSCO: Well, the whole theory behind the Western Hemisphere Trade Corporation as it is called is to provide a means of offering a preferred tax rate to domestic companies, that is, American formed companies which carry on their business outside the United States and the sort of





corporation which is formed pays the tax of about 38 percent instead of 52 percent which it would pay if it was an ordinary domestic corporation and those companies can operate in Mexico or anywhere in the Western Hemisphere outside the United States, so to that extent it could be said that an individual by using the Western Hemisphere Trade Corporation could secure a lower rate of taxes on profits than he could if he formed a domestic corporation and operated within the United States.

MR. STEWART: Do you know of any organization incorporated in this way in the United States which does operate in Canada?

MR. GLASSCO: There are a lot of the oil companies organized in that way. There are certain very positive advantages in why they should take advantage of that particular United States law. One privilege is the right to include the result of such companies in consolidated returns with their domestic parents and even to do so without paying the 2 percent penalty which is normally chargeable for a consolidated return. The losses of one domestic Western Hemisphere corporation could be offset against the profits of another and generally the whole agreement is to make it possible for the investor to be very flexible and to have a very favourable situation in relation to its operation in the Western Hemisphere outside the United States. This is deliberate policy.

MR. STEWART: I understand that your



study which I have not yet had an opportunity to see, deals with the treaty arrangement with regard to tax matters?

MR. GLASSCO: Yes, and the Western Hemisphere Trade Corporation is described quite fully in that study.

MR. GUSHUE: They would pay two taxes on their operation, wouldn't they, assuming the operation had a profit; they would pay the taxes of the foreign operation and also some taxes in the United States?

MR. GLASSCO: Well, let us take one operating in Canada and let us not think necessarily of one which has a profit because the ones which have had a significant effect on us in Canada have been to some extent at least, those in the oil industry engaged in exploration and development and therefore quite often ending up the year with a loss.

THE CHAIRMAN: But with a lot of oil?

MR. GLASSCO: Yes, in reserve. But to take your question, where there is a profit to Western Hemisphere Trading Corporation, again this whole industry in Canada will pay 47 percent here in the normal rate of taxes the same way as a Canadian. He will be taxable in the States but only at a rate of about 38 percent so that his credit for 47 percent paid in Canada is far more than he needs to extinguish the United States tax completely so in effect he pays the Canadian tax.

MR. STEWART: Your illustration here --





and I realize the importance of all the assumptions made in these illustrations -- incidentally on this point have you had an opportunity to see the illustrations worked out by the Imperial Oil Company in the statement they made?

MR. GLASSCO: Yes, we have had those. I think the answer is we have seen part of it but not all.

MR. STEWART: You are not in a position to say whether the two submissions are consistent?

MR. GLASSCO: Well, not having seen their brief in final form, I would not like to say that.

MR. STEWART: The illustrations in 16 indicate that there is a substantial advantage in having an integrated operation in this industry in Canada?

MR. GLASSCO: Yes, that is because to the extent that the costs of development and exploration exceed production it could be applied against income from marketing and therefore there is less in the long run to reduce the production income for purposes of depletion.

MR. STEWART: The effect would be either to induce a combination of industries or, if you like, to confer an advantage on those organizations which had combined their activities?

MR. GLASSCO: I am not at all sure it is an exact result. It rather looks as if it is an incidental result of the method chosen but I am not qualified to say what the effects are of that. We do



say that one of the obvious needs of the situation is to reverse the incentives and instead of discouraging a man from going on when he gets some production, the incentive should be there for him to continue and they certainly are there in the case of the United States offer. Now, if you cure that by granting depletion of gross production, say, it automatically means that the marketing company gets the same depletion allowance as does the company which has no business other than exploration and development. They both take the same basis for depletion allowance.

MR. STEWART: Did your study indicate what percentage of earnings ~~must~~ come from marketing in order to fall into this category?

MR. GLASSCO: Well, it would not be a matter of percentage. It would be simply that if there were not income available from the other activities of the company in marketing and refining that income would be available to apply to exploration and development costs to the extent that there was not income from production to do so.

MR. STEWART: Assuming that marketing is a reasonably profitable activity, if you don't have it then you don't have these profits?

MR. GLASSCO: That is right.

MR. STEWART: As between these different alternatives for improving the Canadian system, at the bottom of page 16 and on to 17 you say:

"Consideration might also be given to finding a better method of enabling





"the operator to write off against income the costs of unproductive and abandoned property, the present provision in this respect being extremely limited."

This is one of perhaps three different ways in which this could be done.

MR. GLASSCO: I think we might say it is one feature of the present system about which complaint is made and which as a matter of justice and incentive might appear to be important.

MR. STEWART: It is a separate and specific provision of the legislation as it now stands?

MR. GLASSCO: Oh, yes. The present exemption is limited to an entitlement to write off the costs of leases acquired from government where there is no production and abandonment declared and that is pretty narrow. It might represent quite a lot of such things but government leases are big but if you get down to the number of transactions in which operators acquire oil property it is probably a very small minority. There are all sorts of arrangements whereby operators acquire land and in certain percentages those lands turn out to be unproductive and are abandoned and there is no provision in our tax law other than the overall depletion allowance whereby that cost can be recovered.

MR. STEWART: Forgive me for being so slow in getting at these things but it is a complicated field I am not so familiar with. But supposing we went



on the gross income basis which is one of the possibilities --

MR. GLASSCO: Yes.

MR. STEWART: --- then there would be no point in this third condition?

MR. GLASSCO: You mean by the third the question of unproductive property?

MR. STEWART: Yes.

MR. GLASSCO: Oh, I think so. It depends how you set your rate. If you are going to allow depletion on gross income presumably it should be set to provide a recovery of expenditure so far as possible in relation to the producing wells. If you try to introduce an additional element to provide for unsuccessful exploration then you immediately put a bonus in there which is entirely undeserved by somebody who was simply finding proven acreage.

Therefore, if you are going to a gross production basis I think the right way to approach it will be to make your rate relate as closely as possible to the problem of actually finding a producing well and lifting the oil out of it. If you go beyond that you are in trouble. So that in such circumstances you would have to provide in addition for cost of unproductive exploration and the cost of abandonment of unproductive property. Otherwise if you tried to do it by the depletion allowance I fear you would get an allowance so large that a lot of people would be getting much more than they deserved in certain circumstances.

MR. STEWART: Over on page 17 you indicate certain safeguards which would be necessary if we made





the change, say to the gross basis. As I understand it, what you are saying is that if that change were made at some point of time that immediately it would become profitable to buy up producing properties or keep up the price of oil properties, that there would be a capital gain there?

MR. GLASSCO: Well, immediately you extend cost depletion a lot of property which is unattractive today will become desirable at the price even though, because you can mortgage that against particular advantage to even the cost, that means there would be an increase in the price of oil land and there would be a lot of people with profits in their hands which they do not get under the present system and you would probably get to a point where the government would be paying the cost of the operation by way of depletion allowance and if the properties are going up the revenue is going to take a beating, so we have suggested that that problem should be looked at very closely. I don't know what the answer is and frankly it is such a complex picture that I doubt if anyone is able to say offhand what should be done, but it is an important element, and you would not just recommend giving the palliative in all of the circumstances and letting it go.

MR. STEWART: Will you explain more carefully to me what you have in mind when you say:

"In addition there should be some recognition of the special risks and hazards inherent in this industry and



"it would be obviously desirable that as far as possible the incentives offered should apply in their fullest form where the risks are greatest."

MR. GLASSCO: I think that is perhaps best explained as being a criticism of the present system.

MR. GIBSON: I think the difficulty, Doctor, is that the present depletion allowance has to do two jobs. It has to provide a recovery of the cost of property which is not deductible in arriving at income so that before you can get at the profit which the operator has really made you have to take off his capital costs which for tax purposes cannot be done. Therefore, he must get compensation for that from his depletion allowance. But in addition to that you are in a very hazardous industry and the whole basis of depletion allowance, I think, in both mining and oil has got to be that in part there is some recognition of the hazards by recognizing in fact the value of what you discover and giving some allowance for that.

Now, when you combine costs recovered plus an incentive to take these risks in one allowance it is pretty difficult for that to meet all the varying circumstances and as Mr. Glassco says if you take one situation where you simply go in and buy a quarter section for \$150,000 and drill it out and then hold perhaps what will suit as a depletion allowance, that may not suit at all for a situation where you are going out and exploring and opening unproven acreage. Logically





you have two situations to recognize - one, cost recovery and the other to give an incentive to the explorer and that incentive should be the greatest where the risks are very great and they are not very great in drilling out proven acreage.

MR. STEWART: Oh, it really comes back to the question of the rate at which you wish to explore and if we made any of the changes suggested here it would add to the incentive to explore?

MR. GIBSON: I think all the changes which are suggested here run in that direction, Dr. Stewart.

MR. STEWART: I won't go on and ask you whether we are having a sufficiently rapid rate of exploration.

MR. GRAUER: Would not the Americans participate to a greater or lesser degree?

MR. GLASSCO: That is a factor in it but the rate of exploration would be another element.

Mr. Richardson quite properly points out that these are also designed to secure a certain equity not only greater incentive.

MR. GRAUER: I had a few points I wanted to clear up. On page 6, the situation where there is 5 percent on interest on provincial bonds and 15 percent on interest on municipal bonds. I am just curious to know the rationale behind that.

MR. GLASSCO: These rates sort of grew like Topsy. I am not sure I have heard the exact history of the sequence of them. We certainly don't



know the reason. We may be able to give you the order in which they arose.

MR. GRAUER: I was just curious to know why the two rates.

MR. GLASSCO: Well, I think as a matter of seniority the Dominion of Canada bonds get off tax free, the provincial which was next in order get a 5 percent rate and the municipals get 15 percent.

MR. GRAUER: On page 8 the restrictions placed upon the investment powers of trustees are dealt with and at the bottom of the page reference is made to pension funds and it is pointed out that if they were allowed to invest to a greater extent in common stock it would provide a hedge against inflation. Does that not also apply to the trustee investment? I rather gathered that you were less inclined to ---

MR. GLASSCO: Well, in that connection there is a fuller reference to it in the study but to some extent the wills of wealthy people of large estates are being left more and more in such circumstances with a specific discretion given the trustee, in some cases the direction that they shall hold funds invested in equities. I am not sure that the amount of government control in the administration of trustees of wills generally is quite as important as an investment source as might be thought at first. However, it has a very important psychological effect and the collateral effect upon other bodies which are not directly bound by that law but influenced by it, boards of public bodies and charitable institutions are in many cases unrealistic





as to powers of investment, but they ordinarily tend to exercise their discretion along the lines which the trustees are required to follow under the laws of the province and if there was a change in the statutory requirements laid upon trustees I would think it would have an effect on a lot of people beyond the actual people who are bound by such law.

MR. GRAUER: Certainly the assumptions made before this Commission of full employment and of expanding economy and a slight tendency towards inflation would make one think that.

MR. GLASSCO: You are familiar with the very high percentage of investment of common stock equities of some of the educational institutions of the United States. I think a group of 45 or 50 American universities show over 50 percent of their total assets in common stock. There is nothing like that in Canada and presumably some overhaul of our trustee powers might have some slight influence in that direction. I think it has a restraining influence as it stands.

MR. GRAUER: In the United States, I think, it is allowed to invest its sinking fund in its own stock.

THE CHAIRMAN: Yes, Sears-Roebuck did that.

MR. GLASSCO: It is usually better than to invest in somebody else's common stock.

MR. GRAUER: On page 17 you say at the end of the second paragraph:



"It is fair to say that unless some restraint was imposed in this connection, a serious loss of tax <sup>revenue</sup> would undoubtedly occur."

That is a sample of the high prices that would obtain and the very tax related to ---

MR. GLASSCO: The depletion.

MR. GRAUER: That is it?

MR. GLASSCO: Yes.

MR. GRAUER: Well, it is hardly a reason for not doing it assuming it is the right thing to do.

It is much like the last point in page 18 where you say that the United States Treasury would receive additional revenue after this part of our greater incentive and stimulation of growth. We could hardly complain if the United States got more out of it, could we?

MR. GLASSCO: Well, I am assuming we could stop the United States Treasury getting it if we wanted to.

THE CHAIRMAN: Don't you think that is a rather unfriendly act as the Secretary of the Treasury has to raise cash to balance his budget?

MR. GLASSCO: He isn't the only one who is trying to balance his budget.

MR. STEWART: The treaty does not cover that?

MR. GLASSCO: No, but the treaty may stand in the way of stopping some steps which you might want to take to stop it going to the Treasury of the United States.

MR. GUSHUE: This is a very general question,





Mr. Glassco, and entails a comparison of two industries, and perhaps you can't answer it but I was wondering if you could express a view as to whether the risks in an oil industry are greater, for example, than the risks in the fishing industry?

MR. GLASSCO: I don't know what to say about that. Both are fluid elements. Well, when you drill a dry well you can be sure there is no oil there but you can go out tomorrow and drag a river and there are a lot of fish where there were none yesterday.

MR. GUSHUE: And that have moved out when you go to get them?

MR. GLASSCO: Remember the fish you get is largely a matter of how many people are fishing.

THE CHAIRMAN: Well, I have been rather silent today because I know from long experience the trouble I get into when I tackle you and George Richardson but we are very grateful to you and if other questions crop up perhaps we can send them along later.

Thank you very much.

We will adjourn.

(At 4:50 P.M. The Commission adjourned until 10:00 A.M., Thursday, 2nd February 1956.)



ROYAL COMMISSION

ON

CANADA'S ECONOMIC PROSPECTS

HEARINGS

HELD AT

TORONTO, ONT.

FEBRUARY 2, 1956

VOL. 30





TORONTO, ONTARIO,  
Thursday, 2nd February, 1956.

APPEARANCES:

Mr. Edgar Burton, President,  
The Robert Simpson Company Limited.

Mr. F.H.Kortwright, President,  
Conservation Council of Ontario.  
Mr. Eric Baker,  
Mr. H.L.Patterson, Director of  
Farm Economics, Ontario Department  
of Agriculture,  
Mr. Gavin Henderson, Secretary of  
Association.

Mr. R. Hodges, Soil Scientist,  
Photographic Survey Corporation Ltd.

Dr. Lord, Association of Professional  
Engineers of Ontario.

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THE CHAIRMAN: Will we come to order,  
gentlemen? Mr. Burton, it is very pleasant to welcome  
you to this Commission. We have read your submission  
and are looking forward to hearing from you. I think  
if you would read it, it would be useful. We will  
mark it Exhibit 167 and any time you are ready you might  
as well proceed.

MR. BURTON: Mr. Chairman, and gentlemen,  
I welcome this opportunity to present some views before  
this Royal Commission on the Canadian department store  
business. Without a doubt, Canada's economic prospects  
will be enhanced by the consideration of long-term  
planning which the terms of reference of this Commission  
has stimulated.

In every industry and business, it is the  
responsibility of senior operating officers and directors  
to deal not only with current operations, but also to



make the all important decisions for the future, after a full assessment of business prospects in the months or years ahead. It is only recently, however, that Canadian companies have directed their business planning to 5, 10 and even 20 years ahead. In the retail trade and possibly in most other businesses, I think it is correct to say that it is impractical for other than the largest companies to forecast changing patterns of distribution and to direct their development accordingly; but it is true that all businesses, large and small, should benefit greatly from the results of your findings.

Before dealing specifically with the department store business and possibly answering the questions uppermost in your minds about its place in our economy and current development, which will influence its future growth and expansion, I think I should outline certain factors which affect Canadian retailing as a whole.

Canadian distribution has been developed and adapted to serve a sparsely settled land area and it has had to contend with the many special problems that a small population and great distances have created. Distribution costs are of necessity a major problem in a country with approximately four people per square mile, such as we have in Canada. In the United States there are for comparison 55 people per square mile. Then the Canadian climate with its rapid changes and extremes in temperature can create unusual inventory problems for most of our retailers. In the case of





seasonal goods, particularly women's fashions, the wrong weather at the wrong time can mean the difference between operating at a profit or a loss. Yet the successful Canadian retailer must always carry adequate stocks to meet the needs of a normal season. This is a hazard which large and small retailers share in about the same degree.

On account of the limited population in most parts of Canada, the manufacturing of consumer goods is largely concentrated in Southern Ontario and Quebec. Retailers operating outside of these areas, some of them at great distances from their sources of supply are required to make firm commitments further ahead and have to contend with other operating disadvantages on account of their distance from markets. In the United States, on the other hand, where there is much greater decentralization of the consumer goods industries, retailers are able to buy locally a large percentage of the products which they sell. California is a good example. And the west coast is a very good example of this. One company I know of buys 80 percent of the goods they sell on the west coast.

The Canadian retailers' gamble is also increased by the necessity of committing themselves for larger initial orders at the beginning of a season. They have to do this for reasons I have mentioned, but in addition they cannot always fill in their requirements from manufacturers' shelf stocks as can generally be done in many United States markets.

We should also remember that the incidence



of our freight rate structure has the effect of making more expensive the prices of consumer goods. It has been the national policy for many years that our primary products should be carried by the railways at very low special rates. The result of this has been that other goods, including those sold to consumers, have been overcharged, so that our railways could maintain an economic operation. It is not my intention at this point to argue the pros and cons of this policy, but you can readily see that it adds to the distribution cost of consumer goods and it falls with particular weight on the pocketbooks of Canadians living at some distance from the industrial districts of Ontario and Quebec.

I should also add another few words here that are not in the brief. Another very important influence in the cost of consumer goods in Canada is the 10 percent sales tax which does not exist in the United States and then, of course, we have excise taxes on a variety of lines of goods which also do not compare with what they have down there. So that when looking at the broad limit of manufacture of consumer goods here and the retail prices at least 10 to 15 percent of the retail price is a tax which we have which they do not have.

Because of our special distribution problems in satisfying the Canadian consumer in widely separated parts, the wholesaling function is bound to be an intricate part of our distribution system for many years to come. Many small retailers in towns and





villages across our land need the wholesaler not only for their supply of merchandise, but also for the great assistance the wholesaler gives his customer today in sales promotion, fixturing, display, accounting, and in many other ways. The four mail order plants of my own company act as wholesalers of many lines of goods to our own retail stores. They provide a merchandise service of supply to our retail stores in much the same way that the independent wholesaler services his group of retailers.

Perhaps the single most important fact about retailing in Canada is the strong competitive position of the independent retail store in most categories of merchandise with perhaps the exception of food. There is certainly no over-all trend towards monopoly conditions in the retail trade, in spite of rather rapid expansion in the department store field in recent years. In 1955, department store sales amounted to probably less than 10 percent of all retail business transacted. I might say that in that total figure would be included automobile sales as well. Department stores, however, having the resources to study, to assess, and to pioneer new ideas play a most important part in contributing to more efficient operating and merchandising procedures within the trade.

#### The Department Store Business

There are certain trends in costs, employment, and productivity as well as factors affecting purchases and changes in consumer habits in which I



feel sure this Royal Commission should be interested.

In view of the many incorrect statements made that Canadian operating costs and margins are higher than in the United States, I should like to submit the following data which is evidence to the contrary. The United States figures are from the annual reports of the Controllers Congress of the National Retail Dry Goods Association and represent a broad sample of American department stores. The Canadian figures are based on reports from forty department stores. These statistics are directly comparable.

I am not going to read all the percentages but you will see by looking them over that the gross margins in the United States are approximately two to three percent higher than they are in Canada for the last three years, 1952, 1953 and 1954 and we have expenses much correspondingly lower. The net operating profit is quite small. It is less here actually although it was more in 1954 but in the two preceding years it was less than in the United States. Stock turnover here is even better than in the United States which is quite remarkable in view of our particular market.

MR. GRAUER: Net operating profit, is that a percentage of sales?

MR. BURTON: Yes. These are all percentages of sales to the stock turnover.

There are only three years' experience on which to base these comparisons, but they indicate that





Canadian department store gross margins and operating expenses are lower in relation to sales than comparable department stores in the United States.

Department store costs have steadily risen in dollars in recent years reflecting sharply higher wage rates, as well as other increases in the cost of supplies and services to meet customer demands. They have been subject to the same upward cost pressures experienced in other industries. It must be emphasized, however, that a department store does not derive comparable cost saving benefits from technical improvements in machinery and equipment as does a manufacturing company. Retailing is far from being an exact science. As a service operation, which must of necessity have a large labour force, its main opportunity to brake rising costs is more efficient organization and administration.

It is certainly true -- I perhaps should have said "probably true" -- but it is certainly true that the retail business is the most keenly competitive in our economy -- it is certainly one of the most anyway--

THE CHAIRMAN: You won't include the accounting profession?

MR. BURTON: No, that is another, sir. --- and as a result department store have been forced to add more and more customer services in response to public demand. Under these circumstances, the fact that most department stores in Canada have been able to hold the rise in costs in relation to sales to very small proportions is, I think, a creditable performance.

From 1937 to the present time, there has



been very little change in operating costs as a percentage to sales in United States department stores. Unfortunately, there is no long-term comparable date available for Canada. It is reasonable to suggest, however, that department store costs as a percentage to sales in Canada have not varied much during this period. In any event, this is true in the case of my own company.

The future trend of department store operating costs will depend to a large extent on payroll costs. Stores are experiencing an ever increasing demand for more and better services including such things as credit facilities, telephone ordering, and the extension of free delivery areas. They are also faced with the necessity of providing large scale parking facilities and they have to absorb heavy increases in most communities in realty and business taxes. As an offset to these, there are some favourable factors which tend to keep costs within reasonable bounds. The extension of self-service and self-selection as a means of selling merchandise is minimizing the number of staff required to sell certain lines of merchandise. More efficiently designed display fixtures are essential if a store is to accomplish very much in this direction. There also have been great developments in goods handling, particularly durable goods. Better warehousing and mechanical handling of heavy lines have had an important effect in reducing operating costs. On balance it would seem that there are good reasons to believe that direct operating costs of Canadian department stores related





to sales should gradually decline in the years ahead.

In relation to sales volume, department stores require a greater number of employees than most other types of business, and the degree to which they will be able to reduce costs in the years ahead will depend in large measure on whether the rise in total payroll costs can be kept in line. In recent years, stores have steadily raised wage rates, so that a career in a department store has become must more attractive than formerly. In addition to paying competitive wage rates, most Canadian department stores have adopted an impressive programme of benefits -- profit sharing, pensions, sickness allowances, medical and hospital care, group insurance, vacations and holidays with pay, etcetera.

One of the most significant and important developments taking place is the growing acceptance of profit sharing plans of one kind or another. A recent survey by the Canadian Retail Federation of 100 member companies operating more than 2,000 stores showed that 27,500 employees in 711 stores participated in some form of profit sharing.

The Simpson company introduced its profit sharing plan in 1919, and in our opinion it has contributed greatly to the continued success of the company. The members of this plan are all shareholders of the company, thereby giving them a special interest in the financial success of the business. I regard this programme to give regular members of the staff an opportunity to participate in the fruits of their efforts,



the most important single element in good employee relations. Our retirement scheme combines the profit sharing plan and a Company paid Government annuity so that on retirement our employees have a cash sum -- I should have said including a block of stock -- plus a Canadian Government Annuity for life. This has been a most effective combination.

Retail stores, particularly department stores, must remain open to serve the public six days a week, and in addition most stores today are open one or two evenings a week until 9 p.m. With the acceptance of the 5-day employee work week, and most progressive retailers have adopted the 5-day employee work week, sales staff time has to be staggered. Aside from increased wage rates and welfare benefits, the 5-day employee week combined with the 6-day store week have been responsible for the most important cost increases in recent years.

We are going to see evening shopping becoming the custom in more and more cities in the years ahead. With more married women working and with many housewives finding it difficult to leave young families during the daytime, there is an increasing demand in most communities for family shopping nights. I suppose this trend is encouraged because it is easier to park in the evening than during the daytime, and it gives an opportunity for husband and wife to shop together which they cannot do during the daytime unless they want to spoil their weekends, their Saturdays and so on. Unfortunately, in many municipalities there





still exists antiquated store hours legislation which prevents retailers giving customers the service they want. This is by far in the minority. I think most communities by far do not have such legislation but a minority have. Evening shopping in the modern department store does not mean longer hours for employees. Working hours are arranged in such a way that no employee works more than 8-hours a day or 5-days a week.

Originally much of this antiquated store hour legislation was passed to protect the worker and is completely out-of-date and unnecessary in view of the adequate protection provided by existing Labour Codes.

It is certainly inconsistent to allow a manufacturer to operate his plant around the clock if he wishes to do so, and at the same time prohibit a retailer from utilizing his capital assets in the same way, provided, of course, that he does so in keeping with established legislation on the maximum hours of work. One or two evenings a week for shopping is almost a must in many of the outlying shopping centres which are being developed at the present time; yet in many places these progressive retailers are prevented by this out-moded legislation from giving the people what they want.

Speaking of legislation, it is also interesting to note that in many states of the United States, they have Fair Trade Laws which attempt to force resale price maintenance. Here in Canada we have a law which attempts to prohibit resale price maintenance



-- just the reverse legislation to that which exists in the United States. I would like to suggest that both countries are wrong; that no legislation on this subject is desirable or necessary and that the resulting price level to the consumer, in both countries, would be very much the same as we have today. With the keenest kind of competition at the manufacturing as well as at the retail level, certainly in consumer goods levels, there is no need for any special legislation.

The Fair Trade Laws of the United States have been responsible to a large extent for the springing up of the discount house which makes use of the Fair Trade price supposedly to show how cheaply its goods are being offered. We do not have discount houses as they are known in the United States, but in recent years some retail stores have been established in the larger Canadian cities, selling mainly major appliances and television at very low margins and presumably at very low expense ratios. I think one can assume that with the demand for this type of product on the increase, these stores will continue to operate successfully. It is true, however, that if volume were to drop off substantially in any of these major appliance lines, it would be most difficult for this type of store to make a profit at present margins. Department stores are meeting this price competition, although with the additional service and guarantees rendered by department stores generally there is little or no profit being made in these lines.





It is sometimes suggested by those who do not know the facts that department store margins are substantially higher than those of other retail outlets. This is a broad generalization that cannot be supported. It must be realized that in most lines of goods, department stores perform the wholesale as well as the retail function. A comparison of gross margins can only be valid on similar merchandise sold under a similar merchandising plan. The fact is that department stores in nearly all cases have smaller margins than the normal combined wholesale and retail spreads; yet they supply the customer with more services and a much larger assortment of goods for which the consumer pays no additional premium -- in fact, in most lines there is a substantial saving.

One special point of interest to the Commission should be noted here. While Canadian department store gross margins are less than they are in comparable stores in the United States, across the whole range of consumer durable goods the disparity is even more pronounced. Not every one realizes that Canadian department stores buy from Canadian manufacturers more than 80 percent of the merchandise they sell. In my own companies the figure is higher -- somewhat in excess of 85 percent. It is our policy gradually to raise this percentage by having many important lines now produced in the United States made for us in Canadian factories. To do this will provide much new employment in Canada, and from the standpoint of service of supply in the event of national emergencies of one kind or another,



or Exchange difficulties, it is obviously in our own interest to do this.

We are also keenly interested in buying a wide assortment of imported merchandise from the United Kingdom, the United States and other countries of the free world, mainly European countries. Some of the items which are imported could not be made economically in this market. Many of them are strictly of the prestige fashion character. A steady flow of such merchandise is of inestimable value to Canadian manufacturers as they provide them with no end of ideas and inspiration. Many of the new items which are imported by department stores are soon copied and manufactured in Canada and are thus made available to all retailers.

The granting of consumer credit by department stores has been an important method of selling since the first World War. As long ago as the early 20's, our Toronto store had time payment accounts in two out of three homes in Toronto. The granting of this type of credit has enabled hundreds of thousands of people to acquire appliances and other home furnishings which they might otherwise not have owned. It has enabled manufacturers of these products -- and this is a very important point -- to have a market big enough to make the production of them economically possible.

Consumer credit has been one of the main methods used by the average working man to raise his standards of living, and I suggest that this type of selling instead of being frowned on by many important people in business and banking should be encouraged.





The only control in my opinion, that is ever needed to make sure that the expansion of consumer credit does not go beyond reasonable bounds is the good judgment of the persons granting such credit and the availability of funds to finance their accounts receivable. In recent weeks there has been a tightening of bank credit and those extending consumer credit will undoubtedly find it more difficult and more expensive to provide financing for a further extension of this business. It is my sincere belief that it would be a great mistake to contemplate any direct consumer credit controls at the present time.

It may be of interest to the Commission to know that while the total business of our companies increased during 1955 in line with the general trend, the percentage transacted on credit was actually lower in relation to total sales, than the year before. These figures are rather interesting because we have credit accounts in about 20 percent of the homes in Canada from Newfoundland to Vancouver Island.

I might say that these accounts average in the neighbourhood of about \$100.00 and they pay out in an average of ten months although we do have credit accounts much shorter than that and longer, up to 24 months.

There is a great deal of speculation today as to the effect of the suburban shopping centre on established downtown department stores. It is suggested by many that the suburban shopping centres are displacing the downtown commercial areas of our



cities. It is my opinion that the downtown department stores are not facing the prospect of a decline in their commercial importance, but rather that their future growth will be at a slower rate as suburban shopping centres develop.

A shopping centre is really an addition to the competitive facilities offered Canadian consumers, and it is not adaptable to every city or town; rather, it is limited to certain urban areas with large scale suburban developments. Many of the shopping centres that are being developed in suburban areas are merely replacing the kind of strip growth in retailing which we have seen in years past, such as Danforth Avenue and many other streets in Toronto and elsewhere. Most of the future retail growth in cities of 30,000 population and more will be in the form of shopping centres with large parking areas for the convenience of customers. Nevertheless, there is strong statistical support for the belief that the big downtown department stores which offer by far the largest range of merchandise and services will continue to attract their customers from not only the inner sections of the city but from the suburbs as well, particularly for the more important type of purchase, such as a fur coat or cloth coat or an improved item of home furnishing, etcetera.

We have done much in some of our cities, and particularly in the City of Toronto to improve our transportation facilities to the downtown area, but a great deal more must be done.

It is interesting to see the extensive





development of municipal parking areas and garages across the country. Much more of this should be done, not just by municipalities but I believe by business itself. Great improvements will have to be made in parking facilities for all downtown stores in the next few years. I am sure that this will be done and that the downtown department store will more than maintain its position in the future years.

Although only a relatively small proportion of the total retail business in Canada is transacted by mail order, it represents perhaps the most important single element in our distribution system. It is not an exaggeration to say that without the mail order catalogues of the large companies that the standard of living for many Canadians, especially those Canadians living in sparsely settled areas, would be lower and this statement can also be made of people in smaller communities.

One might think that with the farm-to-city trend of population movement that there would be some curtailment in mail order business; but, in fact, the direct opposite is the case. The large mail order catalogues supported by order offices in nearly every community offer customers in smaller cities and towns a wide range of merchandise they would otherwise not be able to obtain, and they exert a strong levelling influence on consumer prices from coast to coast. In addition to this, the mail order catalogues are serving an increasing number of customers in the outlying suburbs of large cities who find the catalogue and the telephone



the most convenient method of buying.

Mail order planning must be done many months prior to normal retail practice, and in a country such as ours with wide seasonal variations in manufacturing production, mail order merchandising because orders are placed in the off-season makes a distinct contribution to levelling out seasonal fluctuations in our economy.

Capital expenditures by department stores and for that matter other retailers are determined by some of the following factors. The rate of population increase certainly exerts an influence, but the distribution of potential customers and the level of personal income is even more important. Most of the 150,000 Canadian retailers serve relatively local markets. Measured in time intervals, these range from the small convenience goods store serving customers in a five-minute walk-in radius to the large downtown department store or regional shopping centre which draw their principal traffic within an area of twenty minutes transportation time by private car or public vehicle.

Within the small and medium sized Canadian cities, increase in population and income is and probably will be the principal motivation in attracting new stores and in persuading existing establishments to modernize. Some of this increase in population comes from a rise in the birth rate, some from new immigrants and some from the continuing movement from the farm to the city. In the larger cities, these same factors have existed; but in addition there has been a strong movement





to suburban living, and even beyond that to residential "colonies" such as we see in many communities surrounding a city such as ours.

In all such cases, car ownership is the key to participation in city life. Although the automobile provides the necessary mobility whereby most of these residential "colonies" do their principal shopping in the established retail outlets in the core of the city, there is a real opportunity in such areas and need for convenience goods stores such as food markets, drug stores, and so forth, and a very large proportion of new retail development has taken place in such areas.

With a rising standard of living and a much wider market due to population increases, the amount of new retail selling space that will be built in the next few years should be very substantial. People will have more discretionary income to spend on goods formerly considered in the luxury class. There will be tremendous developments in the sale of merchandise that is of a labour saving or convenience character. Many of the appliances and much of today's consumer durable goods selection will be completely out-of-date in a few years, and with increased emphasis on labour saving devices, many articles which are now considered luxuries will take on new importance.

Looking back 15 years, it is clear that there have been tremendous advances made in widening the range of consumer goods - sports clothes, power mowers, electrical appliances, television, to mention only a few. As a result of the millions of dollars



being spent by industry on research and development, we can be sure of an ever growing range of consumer goods that will demand the best in store facilities and methods for mass distribution.

The price of admission for the smallest retail operation is relatively modest, while the price of a large store properly designed and fixtured is extremely high. The record of retail capital investment in the past points out that it is more sensitive to changes in economic activity than in those industries where they have to plan farther ahead, such as a few large corporations. I would think the steel companies would be a good example. So given favourable economic conditions, we can be sure that there will be a continuing high level of investment in retail facilities.

As I have indicated, employment in department stores is high in relation to dollar volume. In recent years, the introduction of the 5-day employee, 6-day store week have tended to increase the number of employees in retailing. It is quite possible that in the next few years the growth of employment in department stores and other retail establishments may be slower than it has been in the recent past. The trend to self-service and self-selection will have some effect on the number of people required in the retail trade.

One of the most significant contributions to employment in the retail trade is likely to be in expanding facilities for servicing merchandise sold. With the tremendous increase in the sale of appliances and gadgets of all kinds, a major expansion and improvement





in servicing facilities will be required. Department stores have been leaders in providing reliable repair service and can be counted upon to improve their competitive position wherever possible by a more complete and satisfactory repair and parts service.

I hope that the various points I have discussed in this brief will be of value to this Royal Commission. It is through modern methods and facilities that Canadian distributors will contribute to a higher standard of living for our people because in many ways the retail trade of which the department stores are a part determines the level of our prosperity.

Thank you very much, Mr. Chairman and gentlemen for the time you have given me and if there are any questions you would like to ask I will do my best to answer them.

THE CHAIRMAN: Thank you very much, Mr. Burton, I will start off if that is agreeable.

On page 11 you state that 80 percent of the merchandise sold by Canadian department stores, and in your case, 85 percent is purchased from Canadian manufacturers. I must say I was surprised that that percentage was so high. You are talking about the whole range of your products, are you?

MR. BURTON: That is right, not including food and not including automobiles which we don't sell.

THE CHAIRMAN: Is it the policy of department stores generally in Canada and your company in particular to assist or to encourage manufacture of various consumer goods in this country?



MR. BURTON: I have said that. Actually in the last two or three years we have been able to make some very interesting arrangements for manufacturing quite important lines here that were imported before. A good example of that is the Coldspot refrigerator which prior to three years ago was imported into this country at the rate of 8,000 or 9,000 refrigerators a year. Last year, let us say the year we are in now, our company will buy from Kelvinator who make these machines in Canada, about 15,000 of those boxes and we can import them actually from the States and probably do a little better cost wise than we can do by building up that volume here in Canada. But we feel that it should be done that way because it is such an important product and a little more volume will enable us to meet and beat those prices in the States.

THE CHAIRMAN: In encouraging the manufacturer of refrigerators or any other consumer goods in Canada are you in a position to assist manufacturers either by giving them management advice which the smaller manufacturer often needs or financial assistance?

MR. BURTON: We do both. In several cases we have provided the whole layout of the plant from information that we have access to and in the case of any important source of supply we like to have a small financial interest in the company which is not particularly for making money out of it as a sideline. The purpose mainly is to tie the manufacturer to us so that we will have a permanent source of supply and not be subject to jumping around from this customer to that.





THE CHAIRMAN: In the United States do the larger retail department stores own manufacturing plants themselves on any substantial scale?

MR. BURTON: No.

THE CHAIRMAN: Their method is the same as yours, is it?

MR. BURTON: As far as I know, there are very, very few manufacturing plants, amazingly few, completely owned by retailers and I don't feel it is a good thing. I think it has come about where the retailer has had a peculiar position in a company and for poor management or something has had to step in and take it over. But I don't think that is desirable and it is not something that is being extended to our knowledge.

THE CHAIRMAN: Yesterday Mr. Goss, the president of General Electric made a most interesting submission to us in which he pointed out that there was an optimum size of plant for products which are mass produced. The ones he was talking about, the optimum sizes were fairly large but I think we all know in some products the optimum size is quite small. In the ones I am thinking of, the optimum size requires 100 employees and it is much more economical to operate that way. Are you in a position to give that kind of advice to manufacturers?

MR. BURTON: As a matter of fact through our partner in the United States we have available to us complete studies of optimum sizes of every type of manufacturing. They have made studies to that effect.



For instance, in the case of a factory that makes sheets, 100 machines or thereabouts is the best performance you can get. With 600 machines you can get a little better but it is much better to decentralize in different parts of the country when that happens and I would hope that is the great objective that I would have in this kind of a programme, that we could have plants, say, in the Maritimes and British Columbia, etcetera, when the volume gets to the right point. But we have all that information available to us and it is being used all the time.

THE CHAIRMAN: I was leading up, Mr. Burton, to asking you whether it was the kind of information you could let us have, our staff?

MR. BURTON: Sure, it could be made available to you. I am quite sure it could. I don't think there is any objection at all.

THE CHAIRMAN: It seems to me that perhaps the Canadian manufacturers are less well informed about that type of information than their American counterparts.

MR. BURTON: A very good example is the case of a plant making ready roofing in rolls. In the United States for years that has been a product kicked around by distributors of all sorts at a very inadequate margin of profit so that one company in the States decided they were going to do something about it. There was a very tight price situation at the manufacturing level of this product. So they bought one plant a few years ago and the key to making that stuff is one





great big machine with a few miscellaneous little things and the key to making it cheaply is the principle of one machine going 24 hours a day like a paper mill. Today they have 25 plants dotted across the United States all very small, but geared to that one machine and the saving in transportation is terrific. We pay a tremendous penalty on all shipments to British Columbia, for instance. I think it is about 2 or 3 percent to ship goods out there. But our objective would be to study all those things as a company and try and make manufacturing arrangements to decentralize as much as we can but it is not possible when you have got one million people in an area, and I suppose perhaps less in the Maritimes. I don't know what the total population of the Maritimes is but it is not quite enough to do a lot of these things.

Battery manufacturing, for instance, you can manufacture batteries in a very small plant yet in Toronto we think we are doing well to have one. We are thinking about another one now at the Coast but that information, I think, could be made available to you. I will have to ask my associates.

THE CHAIRMAN: Well, if it could be made available preferably in a way that we could use, but otherwise confidential, the general idea would be very valuable.

MR. BURTON: I will find out about that.

THE CHAIRMAN: On the same point -- and I think you have covered this but I want to be clear about it -- you said in talking about purchasing such



a high percentage of your requirements in Canada from Canadian manufacturers, that this was desirable from the standpoint of guarantees of supply?

MR. BURTON: That is a further flow of merchandise so that in times of say, some Korean war breaking out for example, prices shoot up and you have commitments with a whole lot of manufacturers and some of them seeing a quick dollar somewhere else will divert material or something that should come to you and you can't very well do much about that. So that the more you have of the type of sources that are tied to you the better. That is what I had in mind.

THE CHAIRMAN: Well, let me put another question: do you think it is in your interests to have considerable sources of supply in Canada rather than to depend on importations?

MR. BURTON: Oh, very much so and actually that has been our policy for the last several years with any important lines that we are now importing from the United States, mainly because that is where the problem exists there and certain cases in England but most of the merchandise we buy there is of a volume and specialty nature. We have gone out of our way as we did in the case of refrigerators to make them here. At the present time we are importing all our freezers from the United States but we plan next year to make them here. That will mean a terrific volume of business to do so. We have got to build a new plant. That is not financed and not arranged yet, so it takes time.

THE CHAIRMAN: Several years ago in this





country and I suppose you still hear it -- some manufacturers said that they felt it was not in their interest to tie themselves to any one or any few customers for two reasons -- one that they didn't have independence if they were tied to one or a number of customers and, secondly, it prevented them selling to others. Is that an old-fashioned concept?

MR. BURTON: Well, I think there is a difference in selling 100 percent of their output and 20 percent. In the case that I have talked about I don't suppose we take more than 20 percent of Kelvinator's output even now if we take that. I think that we do have some cases where we take maybe half the output but our policy is to buy from better manufacturers and fewer of them all the time and the more we spread ourselves the less effective job we can do and the less money we can make, and the manufacturer. In fact we have to see that the manufacturer is making money if we have a small financial interest in his plant.

THE CHAIRMAN: I will talk to you privately one of these days.

MR. GRAUER: On page 7 you say:

"In relation to sales volume, department stores require a greater number of employees than most other types of businesses, and the degree to which they will be able to reduce costs in the years ahead will depend in large measure on whether the rise in payroll costs can be kept in line."

I suppose you imply there in relation to the efficiency



of the staff?

MR. BURTON: Yes. I tried to point out (it was perhaps not too clear in here) that there has been a tremendous increase in the numbers employed in retail since the war because of the switch to the 5-day week; in other words, you have to have more people to do the job when you have a 5-day work week and a 6-day store. There has been quite a substantial increase in the numbers of people in the average retail store on that basis. I think there will be a lot of that continuing, that there will be a demand for more people but most of the larger stores, I think, are on that basis now and therefore I feel that the increase from now on with that out of the picture to some extent would not be quite as rapid, with the introduction of self-selection fixtures and self-service wherever possible, although, mind you, the self-service, self-selection is only applicable to a relatively small number of lines. It works beautifully in a food store and some drug stores and that type of thing but when you get into anything with sizes and colours and style and fittings and all the other applications it so far has not worked too well. I don't know whether I have answered your question or not.

MR. GRAUER: You say later that one of the most important factors determining the volume and presumably profit of the department store is the level of personal income. I suppose a rising level of wage rates or urban workers always provided that it is related to productivity so that it does not throw the economy out of gear, would actually be to the benefit of the





retail trade?

MR. BURTON: Oh, yes. The only trouble is we have to keep pace with that and the number of clerks we have to have is double what you would think we would have to have to do the business that we are going to do. I was looking at some -- we have had a tremendous increase in sales, of course, since the early war years in all stores and I was looking at a history of our sales wage costs in percentage to relation of sales for the last 15 years and I think at the present time in the five Simpson's stores our wage cost is two percent higher in spite of the tremendous increases in sales than it was early in the war. It has gone up too fast, in other words. It has sort of slowed up now with the introduction of the five day week and things of that nature -- pensions and one thing and another have increased the cost considerably and it cannot percentage-wise go up any more if we are going to control costs any more.

MR. GRAUER: Well, with the assumptions of expanding economy of employment which are generally made now with presumably a raise in the standard of living, purchases would more than offset that.

MR. BURTON: Well, it should provide also for some other rival thing like the five day week. We might have to put in the 30 hour week. They are talking about that now. I hope it doesn't come in my day. That is off the record.

MR. GRAUER: Well, with relation to the level of personal income, we are told that there is a



difference between farm income which has tended to come down and urban income which has tended to go up. Do you notice any reflection of that in your sales?

MR. BURTON: I think generally speaking the demand all across the country has been for the better article, the more dressed up article, the more expensive model rather than the stripped model. On the other hand, business, of course, always has been affected very greatly by failures of crops but it is pretty hard to say that we have felt any difference in demand between the farm and the city. I don't think I can say that we have. Whether they want a lower price or cheaper article -- is that what you mean?

MR. GRAUER: Yes, and volume of sales, but you apparently have noticed it in the volume.

MR. BURTON: The volume has gone down in the Prairie Provinces to some extent.

MR. GRAUER: You don't foresee the small retailer having any difficulty, he is holding his own I rather gather?

MR. BURTON: I don't see any trend in general merchandising such as you have had in food. I am not in the food business so I can talk freely but I think the big market in the larger centres, I think you will probably be hearing from some of those gentlemen, but I don't think there is any trend of that kind in our field. There is, of course, quite an expansion in the type of chain stores such as Zeller's and that type of in-between -- not a self-service but not a whole department store type. They are doing a





good deal more business and will continue to expand very rapidly but I don't think they will ever be able to operate in the small communities, smaller cities with very much success; it is mainly a 30,000 population and up deal.

MR. GRAUER: What accounts for the difference in margins between Canadian and American operations? Are those temporary reasons?

MR. BURTON: I think in the first place the sales tax may have some bearing on the lower percentage market up here. Their costs, of course, are higher than ours. In many of the cities where these studies have been taken they would have a most difficult and costly operation. Delivery is a good example. We would probably deliver goods for half what they would in New York. Things of that kind, I think, would be the main difference.

MR. GRAUER: These things are permanent then?

MR. BURTON: Yes, if you continue to give that delivery service and you have to if you are going to maintain your business, you have to do more actually -- you have to cater to the suburban people.

MR. GUSHUE: Mr. Burton, I was rather interested in the references to profit sharing. Is that usually tied in with holding shares in the industry?

MR. BURTON: No, it is not generally done that way but it is in some cases. I believe that is a very important part of the thing, though.

MR. GUSHUE: In your own case it is?



MR. BURTON: Yes, it is.

MR. GUSHUE: It is optional, I take it, on the part of the employee?

MR. BURTON: Yes, the employee does not have to join the fund but in our case we make membership in the fund a very attractive thing because we tie a lot of the other benefits to it. If you are a member of the profit sharing fund you are entitled to group insurance, a government annuity and so forth -- certain conditions.

MR. GUSHUE: How do they pay for the affairs over a period?

MR. BURTON: Well, it is a pretty complicated business but the companies contribute 5 percent of their earnings before taxes to the fund each year. The employee puts in 5 percent of wages. They are limited to \$100 a year. Actually now it should be higher but we will change that in a short time. Then, there are the earnings of the fund which stand to their credit and we invest only the company's contribution of the earnings of the fund in the shares of our company; in other words, employees' savings are always kept in trustee securities.

MR. GUSHUE: If an employee leaves the company ---

MR. BURTON: They have to draw out when they leave. We can give them cash and shares but at the present time we give them the option because we want the shares back.

MR. GUSHUE: At page 9 you made reference to the laws in force universally and in the case of





Canada they prohibit retail price maintenance. Just what does that mean?

MR. BURTON: Under our present law the manufacturer cannot refuse to sell his goods to a distributor. He has to sell and the distributor can kick them around anywhere he wants to; in other words, the manufacturer really has not any control over what happens to his products on the market and I say that with competition at manufacturing level as keen as it is -- and it will continue I am sure -- the manufacturer should be allowed to say to whom he is going to sell and on what conditions. That is really what I am saying.

MR. GUSHUE: The law in the United States is different?

MR. BURTON: The law in the United States is the other way around. They allow a manufacturer, if he is operating under the trade laws to force a retailer to sell his product at so many dollars. They cannot enforce it and it is kind of a joke today but I say neither of us is right. We should both be wise and throw them both out.

MR. GUSHUE: I think from a couple of sources we have had representations which complained rather bitterly about the<sup>effect</sup> in the retail trade in Canada, in clothing and so on of the duty exemption given travellers to the United States and so on. Have you any views on that?

MR. BURTON: Well, I don't have any views. I think it is true that a good many people do go to the States and buy \$100 worth of clothing and bring it back



but in relation to total business done it is very small and we get it back by selling something like \$400 to an American to take back with him.

THE CHAIRMAN: This was the dress manufacturers in Montreal who were complaining about it and they thought it made a lot of difference to their trade.

MR. BURTON: I would be loathe to take a position one way or another on that. I don't think it would be very popular or that it would be right. I don't like to see our customers going to Buffalo to buy their shoes etcetera, but we get a good deal of business from Americans who come to this country. I don't think they buy as much as we buy from the United States but I think the arrangement should be left alone.

THE CHAIRMAN: Well, thank you very much, Mr. Burton. This has been a very interesting presentation and discussion and we are very grateful to you.

--- Recess

--- After Recess

THE CHAIRMAN: Mr. Henderson, I think if you would read your presentation.

MR. HENDERSON: Mr. Chairman and gentlemen, I am very grateful for this opportunity to appear before you this morning. It is not our intention to read the brief in full but rather to give you some background information and to answer some of the questions which have undoubtedly come to your mind from a reading of the brief.

To assist you in this connection we have three members of the Conservation Council of Ontario





present. I would like to introduce you to our President, Mr. Frank Kortwright; Mr. Kortwright, by the way, is a prominent industrialist and well known for his public service activities. He has had a life long interest in conservation of natural resources and has had international recognition for his work in this field.

MR. KORTWRIGHT: Mr. Chairman and gentlemen, I am going to be very brief. The Conservation Council of Ontario believes that Canada's economic prospects depend upon the wise use of its resources and we consider Canada's agricultural land one of its most important resources. The brief we are presenting this morning stems out of the work of our Regional Planning Committee who for the past two years have been doing research and field studies in regard to the wise use of land where there is competition between agricultural and other uses.

It may be of interest to the Commission to know something of this Committee's work. When they were first appointed they were asked to see what could be done towards preventing the conversion of high grade farm land to industrial use wherever low quality agricultural land might be available for the same purpose. At that time some of our Council members favoured freezing all quality land while other members feared such arbitrary control so much they were willing to risk the loss of some of our resources. We therefore asked our Regional Planning Committee to tell us whether there was a middle course and I am happy to say that the



Reports the Regional Planning Committee has brought in to the Council has been of such a nature that they have won the unanimous approval of the Council members.

You will find from the brief that we are emphasizing guidance rather than compulsion. We are convinced that such guidance should be effective if all units of government participated in it on a co-operative basis. We therefore forecast that the next decade will witness a more active participation by the Federal Government in regional matters in a way which will not interfere with local rights.

Thank you very much.

MR. HENDERSON: I would like now to introduce Dr. H. L. Patterson, a member of the Regional Planning Committee of the Conservation Council of Ontario, Director of Farm Economics, Ontario Department of Agriculture. He has had an extensive background in land use for agriculture in the Province of Ontario, several of our other provinces and the State of New York. Dr. Patterson is prepared to answer questions in regard to the agricultural economy section of our brief. For the information of the Commission I would like Dr. Patterson to tell us the relationship between Canada's present food surplus and Canada's total requirements and then he will tell us where we will look for increased food for the increased population now being forecast for Canada.

DR. PATTERSON: I am afraid that is a rather large assignment. Perhaps I can give some ideas that will help to illustrate the problem at least.





This is a map which I believe is going to be made available to the Commission and our first thought was the brown area of Canada is the area in which over half of the land is now in occupied farms. We talk about a population of 40 per square mile. All right, we have got to remember that our agricultural land is pretty limited and that most of the other population of Canada falls within that agricultural area. We do know we have agricultural surpluses and, of course, our big surplus is wheat, but we also know man does not live by bread alone and that we have some other agricultural products to take care of and the area suited to growing some of these other products is much more limited still than our agricultural area would indicate.

The first thing we have to keep in mind is that three-fifths of our agricultural land acreage for cultivation is in the Prairie Provinces where your growing season is rather limited and where, for the most part, your crops are confined to your cereal crops. Not less than 93 percent of our land under cultivation in Western Canada at the present time is in grain and at no time has there been more than 7 percent of the cultivated land in crops that have been in the grass groups, for example. So that the advantage there because of the low rainfall -- it is a 15 inch rainfall land, all Western Canada approximately, on the long term average basis. Within this part here (indicating) there is only an average rainfall of 15 inches including snow converted to a rain basis and further south they talk about the 20 inch rainfall land as being critical



land for agricultural production but because we have a lower evaporation we can get away with less. Still that 15 inch rain is rather important.

Because we have been having a series of very good crops lately that should not fool us into thinking we have unlimited surplus available, particularly when you get farther south such things as coarse grain production because last year we had an average consumption in Canada of over 98,000 hogs on the average, and that means there has been relatively few years when Canada has produced enough feed grain to feed that many hogs, so that in years of dry periods certainly we would have some problem there.

I would like to get down to some of the more specific types of products which are much more limited largely in the scope in which we can produce them.

This is a map of Ontario. I am afraid it is not too legible from there but will be available afterwards. I would like to point out two or three features here which determine to a great degree what we can and cannot grow satisfactorily in Ontario.

I will point out in a moment that our agricultural land is shrinking in Western Canada. I think approximately 6.7 percent went out of agriculture between 1941 and 1951 and that occurs pretty well, of course, in Eastern Canada and also applies here in Ontario and I can show you the areas on the map in a moment where that has occurred. The problem is caused by two or three different things. This is merely a





soil picture map for Ontario. You might think Ontario was pretty well one unit. I would like to point out that it is definitely not. This is a map prepared by Maurice Saunders in the Research Department of the Province of Ontario. I would like to point out that you have a higher precipitation rate to get the same amount of growth. You have higher evaporation from the land surface and therefore it takes more land to be effective and so on, but we have worked out in Ontario the amount of moisture that would be efficient during the growing season by regions. This is based on the requirements of grain done experimentally with each of the areas and uses the central formula for precipitation and evaporation rates due to temperature between the different zones. Here is a big block here which is land that is one inch deficient during the growing season. It is an area then that you hear a lot about -- great large farms and it is one of our major cattle areas, but when you get down into the southwestern part of the Province you get as high as 6 or 7 percent deficient during the growing season which is quite a different situation. Actually those lower deficient areas mean that they are having an advantage there in certain crops such as the corn crop which is much as you have in western Canada where you get that low rainfall area. If you drive across Ontario and know where to look you can pretty well forecast the crops as you go along. These physical features rather so physically determine what is advantageous and what is not advantageous to grow that we have therefore set patterns of crops right



across Canada and they don't change very much from time to time.

This may be too much detail but I could point out, here is Prince Edward County down here on the map, which has a normal moisture deficiency of over 4 inches. The Vineland fruit area has a normal deficiency of 4 to  $5\frac{1}{2}$  inches and our other fruit areas which come in down here run from about 4 inches to 6 inches or almost 7 inches normal moisture deficiency but for some reason or other our fruit growing seems to be concentrated in that area which would be normally deficient for grass.

If the Commission are interested, we have here a land use pattern for Ontario -- 11-54. The only important thing about it is that there has been relatively little change in the use of our land in that period of time. Our farms have changed drastically as anyone who looks would know insofar as our method of farming, but when you get to a breakdown, the actual land use pattern has changed very little. What I am getting at is there are quite a number of our farm products which are now getting relatively close to the needs of our own population and if we are going to think of an industrial expansion requiring an increase in population of 60 percent we are going to have to think pretty quickly about the conservation angle of our land use and where we are going to get all the products which we need for this growing population.

For example, I can remember in 1936 and 1937 when we first got a concession from the United States that they could get 600,000 head of beef cattle





in there on the low export rates I was wondering whether we could keep our cattle down to that number. Within the last four or five years we have not been up to 100,000 exportable beef cattle and two years ago we were down to 5 percent surplus of beef going to our markets over what was the Canadian requirement. Last year I see we were down to 2 percent surplus and with a  $2\frac{1}{2}$  percent increase in population it does not look as though if we go on at our present rate of eating we are going to have a surplus for very long. We are pretty nearly in balance in most areas with our hog population now providing our feed grains stay high in Western Canada. If they do not it would probably mean we would have to throw the weight over to grain. But when we get down to a situation as we have in Ontario where we used to get nearly all the milk we needed for the Toronto market within about 40 miles from the city, we are now bringing that milk in from Georgian Bay to the north, from Walkerton to the northwest, away up in Bruce County, bringing it in from Haldimand County in the southeast, occasionally as far as London to the southwest in the short period of a year, and we are now bringing it in from Belleville in the east to be sold in this area, and each year that milk seems to be spreading out for the same market. The significance in that, in any pattern of development in Canada is that as we have to go farther and farther afield for these products they are going to increase in cost. For example, if it is about an 80 percent hauling cost from Belleville to Toronto right now. That



means that the price of milk in the city of Toronto has to be high enough to cover this increased cost of transportation from outlying areas. We have a long way to go before we get to the position of New York but nevertheless it is beginning to be a problem within the area. Probably the most crucial of all is in the fruit area of the province in which tree fruits, as they have been placed, are quite largely confined to the Niagara Peninsula. There are very few grown outside the Niagara area. Our industrial development, unfortunately, is occurring mostly in those parts of our land surplus in Ontario which have been producing our most expensive crops and which is our most limited type of land available.

There is quite a lot of discussion but it seems that within a few years the entire fruit area of the Niagara Peninsula may be covered with industrial development. A lot of it already is. The township around St. Catharines you can pretty well write off now. We are already crowding out into Niagara Township I think Saltfleet Township close to Hamilton has pretty well disappeared as a garden area which was formerly a choice fruit land area. We have got one township there which is largely intact, that is Louth Township, where the province thought it at least possible to try and save that area. I think Mr. Baker will be talking about that as we proceed.

THE CHAIRMAN: Thank you.

MR. HENDERSON: I would now like to introduce Mr. Eric Baker, who is Chairman of the





Conservation Council Committee and who undertook the research leading to this brief. Mr. Baker, who is a professional accountant with the Department of Pensions and National Health, has had experience as a member of the expert committee on the Humber Valley Conservation Authority. Mr. Baker will tell us about his findings in a sample region and then review the brief giving us particulars of some of the recommendations.

MR. BAKER: Mr. Chairman and Commissioners, as Dr. Patterson has said, there are particularly important features in the Niagara region and for that reason our Committee spent some time studying it as a sample region, not just because we were interested but because the producers and processors in the Niagara Peninsula came and asked us for advice. We did a reconnaissance survey through the work of the staff of our own Committee and two or three things became apparent. First of all, in the Niagara region we will have perhaps what will be probably the most important land and water cross-roads on the North American continent. You have your water traffic going one way and a land corridor going the other and that is a place where industries seek to go. On that same cross-roads you happen to have a little strip of land called the Niagara fruit belt and people thought it was significant from the standpoint of soil.

We find there is a very loose appreciation of what makes land significant for certain purposes. When we talked to the people in the Hamilton neighbourhood to get more details, they told us at Grimsby they



had 173 frost free days per year. At Caledonia which is about the same distance from Hamilton they had 140 frost free days. There are other things which make the Niagara Peninsula important but to take that one definition we had a representative over here on the annexation of Saltfleet. We said because of its pattern it cannot be moved, you can't push climate around. We would rather see Hamilton extend towards Caledonia than extend towards Grimsby. It is not so simple that you can push a city one way or another but there are very definite controls come into this.

We found also that this conversion which is taking place in the Niagara Peninsula was not solely for the price of land. It was not for the reason that you would normally think of. The studies of the Committee brought out the fact that for one thing there was a tax plan which to some extent could not now be remedied. The producers' costs were going up for a share of urban services which did them no good. We began to recognize some of these points.

Another reason for the conversion of Niagara was that when the Queen Elizabeth highway was laid out there the engineers had no commitments so far as we could tell to build so as not to affect neighbouring land values but merely had a commitment to get a road which was fairly economical to construct. The net effect is that the existence of the Queen Elizabeth in the fruit belt has attracted competing land use and many people in the Niagara Peninsula say it would have been much better had the highway





been put across the mountain because it would have raised the value of land on the mountain but the land below that which is around the Queen Elizabeth had its value stabilized by the fact that it was very valuable for fruit growing. So we would have brought along both areas instead of concentrating on one.

The net position of these things is that we became more convinced as we went into it that people do not buy land merely for cheapness; they buy land because of the attractiveness of certain facilities. Then, they are controlled by many levels of government. Availability of water is a municipal matter. The traffic proposition of the highways is a provincial matter, provision of airports comes under federal control and when we try to work out some kind of pattern which might help to stabilize the Niagara situation the same thing would happen all the way through. We would try to get together some committee composed of the three levels of government and it became rather obvious -- I was down to Ottawa in this connection -- it became rather obvious that we had no one department in Ottawa who could say "I represent the federal government in a case of this kind" and the same remark was true at the provincial level and we became aware of the fact that if you wanted a liaison with different levels of government, the elected members were the only ones who had the status of a department of government they represented and these elected members in turn would introduce us to the heads of the various departments. I am not a bit worried about that because at Queen's



Park or otherwise these different viewpoints rather indicate that if we deal with matters at the regional level and integrate them there it is going to inform the regional people of the problems that are facing them. However, it is a new idea.

We feel basically that our own experience showed us that if we could control what we are now controlling like the attractiveness of other places it would be in the national interest. We don't favour compulsory law. I might say since our Committee's work in Niagara we now have two levels of government inasmuch as one of the Ontario departments is teaming with a group in the fruit area. I would like to have a four level concurrence. If the Federal people had a member in it they could have a lot to say where they control the pipeline which was recently put through the Peninsula. There are a lot of ways in which the Federal Government is already in this region. If they are going to be in the region you will find as a fact that they are in as partners rather than as separate units of government. There is a fourth level of government that I would like to see recognized and that is the producers and processors associations, the various officers of economic organizations of the public, because these people have corporations and particular groups and are making decisions which affect the future. If they are in the picture as partners we think that will produce better results and we have suggested, therefore, that the Board of Review include a representative from such people.





As a matter of fact I feel fairly certain a development like that would be popular because we have had quite a few letters from those groups. We know they are not only ready but are anxious to participate as full members.

In reviewing the brief there are a few illustrations I might be able to give you and if I might suggest, Mr. Chairman, if the Commission perhaps would like to interrupt as I am dealing with certain objectives and if they have questions on that objective I would be happy to answer them as I go along.

First of all, on page 2 in the second last paragraph under the heading of "History of Regional Planning" there is reference to state planning. I just want to make the comment that there is in many people a fear of the type of planning on one level, believing, in other words, if a central government does it on their own that central government is somewhat removed from the scene. It seems to create a feeling of apprehension which is not felt if the local government is part of the deal. In some countries they do have all controls stemming from one central government.

Now, in the last line of the first paragraph of the section "Objectives" there is a reference to clarifying the regional bond. I think that might be thought of in relation to the last line of the first paragraph of the "History of Regional Planning" where we speak of boundaries of regions as often being hard to define, and one reason we do not have a more widespread use of regional planning at the present time, is



that some of the regions are readily recognized and some others are not and when somebody takes a map of Ontario or Canada, first of all certain regions are very obvious and are marked out but we always wind up with a left over part which does not seem to have any special cohesion. I don't think it is necessary to wait until we can identify every part of the country as having some particular regional significance. For the purpose we are thinking of now, if we looked at every region where there was a recognized bond, where development was about to take place, where some other decisions were on the hanger then we could make surveys where they are needed but we don't attempt to make a complete administrative pattern.

The reason we want to clarify regional bonds is that this could happen very suddenly. I would suggest here when the Federal Government decided to open Gagetown camp the same moment that they decided to put a big army camp with a population almost as large as the existing city of Fredericton in that area they had created a regional bond. All those municipalities were going to be affected by this camp. It is a type of thing that could happen suddenly and when it happens any place it can change its character but when we are going to have development, our submission is that all the heads of government who are going to be faced with the change of that bond should be brought into the picture.

This is an example today. We are sitting around the same table talking about the same thing from





different viewpoints. If we had that we would get better understanding of what is going on. There was the problem that came up at Gagetown. I think it could best have been solved had there been an overall searching consideration of the effects on the municipality as well as the effect on the federal government.

In the section on "Relation of Federal Government to Regional Planning and Development" I think this is self-explanatory. Malton is one example of this today. The provincial government and federal authorities are now exchanging plans and working on a co-ordinated programme. I happen to know something about the situation there and it could be improved if the three levels of government were working towards some common appreciation of objectives.

Further down on page 3 there is a section that says:

"On the other hand, the Federal Treasury has already shared in the development of some regions through grants to river control works. This seems not only reasonable but desirable as all classes of regional taxpayers benefit from sound regional developments and all three should share public investment costs."

Perhaps I might explain the use of the word "should share" and should have changed it to, say, "could share" because we are well aware of the fact that the federal government gets quite a percentage from successful businesses and most people will invest money



in order to make a good return and it could well be that the federal government would be particularly happy to see the particular development come into being if as a result of the development industry was going to pay a lot more taxes into the federal treasury. It might well be the federal government might like to develop such an industrial improvement and it might be that an investment of federal money would pay very excellent dividends.

The third last paragraph of page 4, there is a reference to the fact that the conversion of agricultural land is worrying the general public. That statement was made on the basis of a very, very wide press comment on the work of the Niagara Committee. It was quoted from one end of this country to the other and in Ontario we reached the point where one city newspaper in Ontario gave three full page second fronts to the work of the Committee. That was because they felt their readers were interested and I suggest this is a matter of widespread interest to the public.

Are there any questions from the Commission up to this point? I have not paused but if there are questions I would like to deal with them in relation to the section.

THE CHAIRMAN: I think we would sooner wait until you have finished.

MR. BAKER: On page 6, the large paragraph in the centre of the page winds up with the comment:

"This element of planning does not prevent a man from doing what he wants with his own





"land but it does recognize the principle that no person can expect the community to assist projects which do it harm."

As an example of that I would say that a checker board development by a municipality is bad for the community because it raises costs and I think the community should have a policy of where it is going to put water mains and other things for its own benefit and that can only be based ultimately on overall planning. It would have to determine what other things or what its neighbouring municipalities are doing.

The second last paragraph on the same page refers to multi-purpose projects and reduced costs, and I would like to remind you that in the case of the T.V.A. project in the States many costs were blended together and we had there a co-ordination of two things -- a co-ordination of objective and a co-ordination of the respective heads of government.

Under "Proposed Regional Planning Bodies" item 1 requests a municipal meeting. We know now that there are municipalities some of whom have written to the Conservation Council about their problems who would like to have group surveys prepared for their future guidance.

At the bottom of page 7 there is a reference to a survey data library or pool to serve all public bodies and avoid duplication of engineering work. I was rather pleasantly surprised that when this point came to the attention of Colonel Medlund of the Professional Engineers Association, he was quite



enthusiastic and supported it and I mention it because here was something that would have reduced the amount of commission and fees coming to professional engineers but he thought it was so much in the public interest he wanted to endorse it. In the case of the Humber Valley Authority it has been our experience that for different purposes, different units of government want to run off estimates of engineering whether in building a bridge or a disposal plant or anything else, but the basic data is the same for all purposes and some kind of regional unit there could produce and prepare a library of such information.

Perhaps on page 8 it might be worth mentioning in Section 3(d) possibly the right to veto non-conforming public works thereafter proposed by any unit. In other words, "non-conforming" would be something which would not be in line with the recommendation of the survey team and if there was a veto which was caused by being advised against it, consequently a majority of the board of review would be against it. I recognize right away that the federal government would not seek to be in a position where some other unit of government would prevent them from carrying out their wishes. On the other hand, I think we have to recognize that there are many aspects of the federal government, Crown corporations and various other fields who are working very closely into the fabric of regional development. They are not on quite the same status as Parliament itself. We think they should be considered in the same position in relation to the majority of





public opinion as any municipal or provincial government. We are not arguing that the veto provision must be there but obviously we would get stronger results if there was real cohesion.

In the middle paragraph of page 9 I can speak from experience in the case of Hurricane Hazel flood and the Humber Valley where we had experience with the Department of National Defence after the flood. I would say it would have been much more effective had there been some pre-flood liaison between the different units but I think the same thing would apply to fire control and other emergencies. They would be facilitated if we had basic regional co-ordination between the different levels of government so there was a basic pattern of integration.

In the summary, the largest paragraph above the summary of principles says:

"The co-ordinating action of the regional Boards of Review may lead in suitable cases to enlargement of municipal horizons, by unions of counties or by formation of metropolitan areas. In any event the Boards would bring cities and their hinterlands into planning contact -- with advantage to both."

You may say that is strictly a provincial matter. We all know that there has developed a pattern whereby cities become separated in counties in which they are located for municipal administration purposes. I think many of us have come to recognize that that is not an advantage from the planning standpoint. The cities and their



hinterlands should be able to work as a unit. On the other hand, I think the significance of federal government in the picture is that their planning results may require federal participation. Unless they are in as a partner the other two partners may say: "What is the use?" I have heard that said.

In regard to the principles, I think it may be worth reading them. These were guide posts in our preparation of the material:

"While stimulus may and should come from higher levels of government, action should start at the municipal level."

Our reason for that was simply that municipal co-operation is going to be important for the end result, and let us get it in there at the beginning rather than have the municipal people say "Look what those big fellows are going to do to us; let us fight it". I have seen some examples of that where they have not sufficient appreciation of the problem and they feel some unknown thing is greater than it would if they were partners in the first place and think it more likely to be successful.

We felt that fact finding should precede policy making. I don't think there should be too much argument about that.

We felt that surveying should be separated from administration. There is a little danger that if the administrative body is the same unit of government as is doing its own surveying there may be a temptation towards wishful thinking and a tendency to confirm what





they were asking in the first place.

I think perhaps the rest of these headings could be taken as read. In Appendix D I just want to draw attention to the fact that much discussion is taking place today about the possibility of a pipeline across Northern Ontario. We know it is an area where construction costs are extremely high and while we are not competent to make specific recommendations it might be desirable to think of the example of the Tennessee Valley Authority and think of the possible saving if the same communication line for road, rail, pipeline and hydro was put in the same route and the costs were shared, and by sharing costs it might be possible to produce a straighter right of way which would justify cutting down the hills and some of the other things that are necessary. It is just one of the possible benefits that can come out of regional co-operation.

Summing up before your questions, I request on behalf of the Council that you so do find as a fact that regional planning is desirable, that you do find as a fact that federal participation as a partner is necessary for good regional planning and that you do endorse the three recommendations which would bring the federal government into that position of being a partner.

MR. STEWART: I would like to ask a few questions in each of these three areas, first of all with regard to the general notion of conservation, secondly on the broad agricultural problem which Dr. Patterson has touched on and then a note on



regional planning.

It seems to me there is a good deal of uncertainty in the minds of people as to just what exactly is involved in the notion of conservation and unless we have a pretty clear idea of what is involved in that then obviously we are not going to get very clearly in mind what has to be done.

I would take it from what you have said that broadly conservation involves all of the aspects of the use of our resources without any narrowing of that at all, is that right?

MR. BAKER: Perhaps I can say this, that a study was made of what the public and the professionals thought the word "conservation" meant and on the disclosures made the average person thought it meant keeping. Today I think it is pretty well thought to mean wider use of resources but there is a trend towards general thinking that it means not only wise use but development for the future of resources and improvement.

MR. STEWART: It means improvement in the sense of increasing the productivity?

MR. BAKER: Right.

MR. STEWART: If that element is involved in it then in relation to the broad sort of problem Dr. Patterson had in mind I would take it that the marketing prospects are extremely important in determining whether the expenditures involved in increasing production are justified or not.

MR. BAKER: I think Dr. Patterson made the point that if we are going to get more food from less land





to feed more people we must produce a greater economic incentive. There must be some extra work done; in other words, a higher price and that higher price can merely be paid directly by the consumer or it can be paid indirectly by various sources or it could be met by additional services to agriculture where we would provide water, farm planning service, etcetera, which in turn could raise our taxes. It is going to cost us more to produce more food from the same land. I would refer you to the quotation from Dr. Neatby in one of the appendices. Our improvement in food production has not kept pace with our increase in population.

THE CHAIRMAN: In Canada or in the world?

MR. BAKER: Generally, sir, in North America. Dr. Neatby, I think, was speaking of the Canadian record. I would refer you to Appendix A. Have I answered your question?

MR. STEWART: Well, I just want to get it clear in my mind what you have in view when you use the term "conservation".

MR. BAKER: Perhaps I can say this that we felt that conservation in farm soils that were specially suited to intensive use was imperative. We set out to try to do that and in the process of trying to do that we stubbed our toes on something bigger and we feel this co-operation and co-ordination would not only guide possible growth away from land which we thought should be preserved but would also be of extreme use to the country in every way.

MR. STEWART: If we think in terms of merely



preventing the depletion of resources then that is one thing, but if we think of conservation as all the activities which are involved in expanding the use of our resources, then that is a much wider use of the term. Now, on the point which Dr. Patterson raised, his view, as I gathered it, was that we are going to face an expanding demand on our agricultural resources through increasing population in the domestic market. I appreciate the point that he made that these, still subject to technological conditions, involve some tendency to increase costs as we push out on to less favourable areas and so on. I rather got the impression from the emphasis on the physical basis of production that that was an absolute factor in that, for example, in Ontario the pattern of land use was pretty well defined and there were pretty clear types of farming areas that you could not do much about because of the physical factors. Surely in the past there is evidence of some shifting in the locales of production and as the markets increase generally that could occur again.

DR. PATTERSON: There could be a shift. I think we would have to recognize right away that you could even grow bananas in Saskatchewan if you wanted to but only at a high cost. That is my point.

MR. STEWART: Unless it is offset by temporary gain.

DR. PATTERSON: Yes.

MR. STEWART: You mentioned the case of milk which is expanding out and I imagine the production





of milk is growing on land which was not used for that purpose before?

DR. PATTERSON: We are bringing in milk from over half the producers. We used to have land right close to the City of Toronto. Now it is a question of whether we produce enough milk for our own needs.

MR. STEWART: What effect would this increasing market concentrated in Ontario have upon your own land use within the area? What shift in production will have to occur and how is that increase to be effected? And will you keep in mind the second question as to how far the increasing concentration of population in Ontario will work its way back to shifts in land use in the Prairie Provinces, with which I know you are equally familiar?

DR. PATTERSON: It is having two effects as far as a shifting market is concerned. The first effect, of course, was the effect of increased wages due to industrial development. As you know our farm wage has gone up over four times since pre-war and the effect of that is to take out of production a lot of land that was marginal but still could be handled on low wage conditions. But it has gone up. These very red spots you see here are not just needles. They are intended to give you those townships where over 35 percent of the farm land disappeared in Ontario between 1941 and 1951 and that, of course, was the straight effect of the industrial competition for help and the fact that a man could go out and get wages when he wanted them.



The other effect, of course, has been to pull into the big markets anything that they want in fresh supply because while milk, for instance, is only worth four cents a pound when you get it to the market therefore you can't afford to move it too far. And then there is the matter of prosperity, so that has to be better locally and so on so as to be enough incentive to get it there. The same is true with our fruit and vegetables. The price is so low there is a limit to where you can truck it and that again tends to come from local sources.

Before the war they tried to develop Holland Marsh. At that time it was premature. The market was not there and the first attempts went through bankruptcy. Since then it has developed very fast and is developing still faster now. That has developed largely because of the growing market close by, which is Toronto, and the fact that the growing market has made it economically feasible and several other changes of that kind can be spotted throughout the province. There have been a lot of developments of that kind.

The second question I have not just got it clear yet -- where is this going to affect the west. One thing is very definite; the whole milk area for Toronto has been moved further into Western Ontario. The main beef area used to extend right over to Weston here but my eastern director tells me when you were driving into Toronto when he was a boy you would not see anything but shorthorn cattle from West of the lake





to Weston. If you drove up that way now you would find very few shorthorn cattle. That is so in Haldimand or Grey or other counties.

That trend has now continued further west. It has got to the point now where you find conversion taking place in South Grey County and even as far as Walkerton in Bruce County and they are bringing in truck loads of cattle and selling them. That effect has pushed the beef out of some of those beef areas in western Ontario and that will react over a period of time in creating a better beef market for western Canada and other areas that are able to step into production of that kind. It will also have quite a marked effect in providing markets for such things as hogs and even for butter which is a product which is already common to the west but which will be needed in larger quantities as time goes on. Actually our butter is disappearing as far as Ontario is concerned. We are down to the point where only 22 percent of our whole production is going into butter. It used to be up around 50 percent like the rest of Canada.

Those products will undoubtedly tend to move west where they can find the land to develop them and grow them. Those products which are concentrated in general, I think, will tend to move away to other markets. You see a lot of that happening in Ontario now.

MR. STEWART: Do you gather then that generally as far as livestock production is concerned



that you would ~~expect~~ it to expand in the west?

DR. PATTERSON: Yes.

MR. STEWART: On the regional approach I gathered first of all that your main emphasis is on inter-government co-operation?

MR. BAKER: We are not attempting to answer any of these questions now. We merely say (a) that the question is important particularly from the agricultural standpoint and (b) that it could be solved better on a team play basis and we try to go ahead and chart out a mechanism by which this can be done. I certainly have no objection to the Commission going a step further and charting out a better mechanism.

MR. STEWART: You have a suggestion of other types of organization. I think you refer to them as another level of government. Do you think that that is necessary with the already elaborate machinery of government we have got? Can't you get co-operation without having some form of government?

MR. BAKER: I would most enthusiastically support the idea that we should not complicate government at all. We will have this Board of Review which is really a conference and representative of various public opinion and interest groups. I think it is desirable and will not be a complication. The actual executive or operational controls would stay the same as they are now. When the Board of Review has said, "This plan makes sense to us", the municipalities would still put in water mains and the provincial government would still put in highways and so on.

MR. GRAUER: Just one point. Appendix A,





in each province, that first section, what is the source for those statistics?

MR. BAKER: That was from the Rand-McNally Standard World Atlas. Both the figures and governments are from the same source.

MR. GRAUER: Does that include potential arable land?

MR. BAKER: I cannot go behind the Rand-McNally statistics. It might be that you could get some particulars there. My understanding from checking with Dr. Putnam who was a member of our Committee, is that we have already reached the frontier of development interest in some small way in the west.

THE CHAIRMAN: Well, we are very grateful to you gentlemen. I will mark your brief No. 168. This is a concept in which the Commission is very interested. We are very interested in the whole presentation but we think that Dr. Patterson's remarks about the probable shifts in agriculture are going to be most useful to us.

Thank you very much.

The next submission is that of the Photographic Survey Corporation Limited. Well, Mr. Hodges, we will mark your submission Exhibit 169.

If you will proceed to read it to us, either sitting down or standing up, whichever you prefer, just proceed.

MR. HODGES: Mr. Chairman, we are sorry that Mr. Douglass Kendall, the president of our company, was unable to be here. He is still in England



on business and he asked us to present this material to you. Our brief is entitled "The Need for Land Use Surveys and Maps of Canada".

The Aerial Survey as a means of assisting in the development of a country's natural resources is well established. Aerial survey methods are now widely used in the mapping of resources for reason of speed, economy, accuracy and disclosure of features not readily apparent by ground observation.

An important and expanding application for these techniques is the preparation of land use maps. Government agencies and private enterprise in a number of countries have found aerial survey methods particularly useful in this connection, as they offer a convenient and inexpensive means of collecting, compiling and presenting land use information.

The surveying and mapping of Canada's physical resources, i.e. the preparation of a "resources inventory" is presently being carried out by a number of government agencies. Use of land and resources is recorded in the decennial census, in assessment rolls and statistical reports, but these data are not commonly reduced to map form, and when they are, they provide only a general picture and are not given in sufficient detail to show the relation of use to capability. For example, soil maps of agricultural districts cover areas as small as 50 acres, while those relating to crop and livestock production are on a township, or at best, a census district basis.





Both government and private enterprise, we believe, would be greatly assisted in developing Canada's natural resources if, in addition to resources surveys and maps, land use surveys and maps were also available. We propose therefore that the Royal Commission, in preparing its findings, consider using land use surveys and maps as a means of compiling information required to make a satisfactory appraisal of Canada's natural resources and their future development.

Through the use of aerial survey methods the measurement and description of resource utilization can be undertaken with an accuracy and ease impossible with other methods. From information collected in this way classes of land can be established and land use patterns portrayed on a map. Such maps are particularly useful as they help to solve a number of important problems. These include -- matching use to use-capability, achieving a proper balance among different uses, and finding the most efficient use when several users are in competition for the same resource. An example of the latter is the case where an area, because of its soil and location, is in demand both for agriculture and urban expansion. This places a speculative value on the area for spatial use which cannot be matched by its productive value as agricultural land. Accurate records of use, and trends in use, correlated with a compilation of the physical resources available can be used to guide public policy and private investment so as to avoid such undesirable situations.



## THE FUNCTION OF LAND USE MAPS

### 1. Extent of Use

The location, extent and intensity of land use are not generally known nor accurately recorded particularly in conjunction with records of resources. This leads to the common misconceptions that resources though vast are unlimited despite such facts that extraction of forest products may exceed annual replenishment, and that agricultural land is abandoned faster than new land comes under the plough.

### 2. Kind of Use

The best use of land is that which is adjusted most closely to the use-capability of the land. Land should be cultivated which will give the highest return on the investment and which can be cultivated without causing it to deteriorate. Trees should be grown on land suitable for tree growth and unsuitable for cultivation. The adjustment of use to use-capability, particularly with respect to agriculture and forestry, is the basis of soil conservation. This cannot be done unless land use is recorded in as great detail as the information regarding the soil itself.

### 3. Pattern of Use

It is necessary to know not only what resources exist, and how and to what extent they are used, but also the relation among land uses. Other than in the field of city planning, where it is recognized, the pattern of use is generally overlooked until it is brought to the fore by the pressure of high values or competition for use. Rural zoning, comparable to urban





zoning, is now practised in areas of close settlement or intensive land use and before long will probably be practised in populous areas of Canada. The pattern and relations between uses must be established if the public interest is to be protected.

#### 4. Basis of Future Use

When forecasting or planning the future use of a resource it is important to consider both its present and past usage. It is essential, therefore, not only to have information concerning future market potentials, price levels and the economy as a whole, but also an accurate and detailed knowledge of the present use and capabilities of the resource in question.

For example, a food processing industry usually settles in an area where the growing of a particular crop has developed on specially suited soils. As the demand for processed foods increases, the growing of the crop may extend to less suitable soils even though suitable land is at hand. The welfare of the industry can be maintained if use, and proposed use, are related to the capability of the soil, but this can only be done if a record is kept of the actual use. Both the agricultural producer and the industrialist can be protected if future production is based on known facts, present use and the physical feature to which it is related.

Resources are presented in terms of economic statistics or balance sheets normally given in dollars and cents, but less commonly in area, volume or rates of production per unit. This is a logical



procedure but it tends to divorce management and control from reality. All resources when developed are a manifestation on the surface of the earth and can be observed, measured, classified and presented as surface phenomena on a map. This is commonly done for educational and publicity purposes in a graphic way, but lacks the precision necessary for scientific planning.

On a national scale much of this information will be presented in the atlas of Canada now in preparation. This however is not on a scale of the resource inventories now published, which are compiled on scales from 4" - 1 mile to 1" - 4 miles. It is proposed that land use data be presented at equivalent scales on existing topographic maps (as is now done with the resources data).

Air survey methods can be used, as they now are in resources mapping, to achieve this end quickly, economically and accurately with analyses and delineation on a more detailed scale. As much of Canada has been aerially photographed for various purposes the compilation of land use maps using air photo interpretation is quite feasible. When required, areas can be re-surveyed by air photography periodically, say coincident with the decennial census, to check trends in use and to amplify and give greater significance to census returns.

It is recognized that resources are a provincial responsibility, but in the operations of the federal departments of Mines and Technical Surveys





and Agriculture much help is given in co-operation with provincial departments. The soils, forestry, geology and hydrographic maps now in existence have proven of inestimable value to private enterprise, as well as government agencies, and it is believed that land use mapping on the same scales would be of equal value and would actually enhance the value of the existing surveys.

#### RECOMMENDATIONS

It is recommended that the Government of Canada, through the appropriate departments and agencies:

(i) arrange for the preparation of land use maps on a similar scale as the soils, forestry, geological and hydrographic maps now in existence, i.e. at scales from 1" to 1 mile to 1/250,000,

(ii) ensure that this be carried out by means of aerial survey methods,

(iii) encourage a policy of using land use surveys and maps as a means of assisting the development of Canada's natural resources, and, in particular, as a means of ensuring that the best use is made of Canada's not unlimited land areas in the long term interest.

Respectfully submitted on behalf of  
The Photographic Survey Corporation Limited, Toronto.

THE CHAIRMAN: Thank you, Mr. Hodges.

MR. STEWART: What sort of costs are involved in doing aerial surveys?

MR. HODGES: The costs fall into two parts, those which are involved in flying, that is, areas which are at present not photographed that have



to be covered by aerial photographs. Surprisingly, (although I have not the exact figure) there is a tremendous amount of our whole land area now covered by aerial photography, certainly in the settled parts of Canada and a great deal of the north. It is costly but where photographs already exist the cost of producing the particulars which we have given and which I would like to show you briefly, is relatively small because most of it can be done by a few people sitting at a table and interpreting photographs. There is only a small number of people doing these determinations.

THE CHAIRMAN: I think we would like to go over and look at those maps. When you see Mr. Kendall tell him we are sorry he has been occupied in England for so long. He had better come back and get to work, hadn't he?

MR. HODGES: I think he is due back next week.

THE CHAIRMAN: Thank you very much, Mr. Hodges.

Dr. Lord, we will mark your submission as Exhibit 170 and if you will proceed to present it to us, we are all ready.

DR. LORD: The brief is not very long, Mr. Chairman, so I propose to read it and then refer to an appendix I have submitted to you and make a few comments and I would be very glad to answer any questions regarding what I say. This is a brief of the Association of Professional Engineers of Ontario.

Dr. G. Edward Hall, President and





Vice-Chancellor of the University of Western Ontario  
in a recent address said:

"We in Canada recognize our natural resources as truly great assets, but we also recognize that our greatest asset is our people and that without our people, adventurous in spirit, conservative in personality, and believing in free enterprise, our magnificent and untold resources would not have been developed and Canada might well have remained a nation of very secondary importance. People -- men and women -- Canadians -- free but self-restrained, independent but modest, young but capable, inexperienced yet strangely mature, law-abiding but outspoken, energetic but retiring, healthy and vigorous but not boisterous -- a strange people we are, but we are Canadians -- proud of ourselves and proud of the country which gives us citizenship. It is these people who have been responsible for Canada's gross national product of goods and services of 25 billions of dollars -- more per capita than any other country in the world except the United States."

That is a very impressive authority, Mr. Chairman.

THE CHAIRMAN: I was wondering who he was talking about but Dr. Gushue says it was the Newfoundlanders.

DR. LORD: We have placed this quotation



at the beginning of the brief because in discussing Canada's Economic Prospects, it is necessary to survey at the start her resources -- resources in materials and men.

We are in agreement with Dr. Hall that Canada's greatest asset in projecting its economy into the future must be its people. We mean its people not only of today, but its people of the future. These future people must not depend alone upon personality, spirit and character but also upon mental greatness achieved through intellectual development brought about by enlightened education. The Association of Professional Engineers of Ontario is, we feel, a body charged with the duty to present this aspect of the matter to The Royal Commission.

We are a learned profession of 14,000 members in Ontario who have as our basic responsibility the administration of The Professional Engineers Act of the Province of Ontario. One of our further interests is the building, expanding and nurturing of the profession through engineering education, professional interests and professional ethics.

#### THE TREND

The engineering profession has grown and become strong in Canada because it is fundamentally tied to industry and industry, we believe, will continue to become the main producer of the means of existence for Canadians.

And then follows, Mr. Chairman, a statement of the arable land in Canada which I heard in the brief





preceding mine and you can read it as well as I but it does reinforce the opinion that we are an industrial nation rather than an agricultural nation.

We list in Table One the labour force in Canada from 1945 to 1955 showing professional engineers registered and the proportion, the way they are growing from 1 to 368, to 1 to 145. That is one engineer for every 145 workmen in industry. It is a very fair indication. Actually in some industries it is down to 1 in 50 and in the United States I have been informed by the Engineers Joint Council that there are some industries that are down to 1 in 20 so there is a great trend for engineers to become a greater proportion of the labour force.

There is reason to believe that the proportion of professional engineers will continue to increase due to:

(a) The increasing complexity of technology in industry. And just there I would like to add I well remember not long ago when the Prime Minister of Canada made the statement that one of our large utilities was through its development stage and no longer needed engineers. He couldn't have been more wrong (God bless his soul, he is dead now) but large industrial organizations of today are so complex that they cannot be run by non-technically trained men and in almost every industry, we have the aeronautical industry, the power industry and all others, the necessity for professionally trained men which is growing and increasing. The idea that professional men and engineers do only the



designing is actually in error. Process industries and all others require professionally trained men for their operation.

(b) The growing tendency for engineers to move into management positions..

(c) A very serious present shortage of professional engineers in the Public Service at all levels.

(d) Normal increase in the total labour force.

(e) Shortage of professional engineers in the United States and the higher salaries being paid in that country.

With reference to (b) above, it is interesting to note that in 1948 8.6 percent of the membership of the Association of Professional Engineers of Ontario held positions of manager or above, while in 1950 the figure was 9.5 percent and in 1954, 11.2 percent.

THE CHAIRMAN: You are gradually moving up.

DR. LORD: Yes, gradually moving up. I could say we are not displacing chartered accountants very quickly.

The Public Service at all levels is presently suffering from a very distinct shortage of professional engineers caused almost entirely because governmental authorities will not establish salary rates that are competitive with industry. It is believed that this situation exists because the various services concerned are relying upon the outdated theory of greater security of employment. It is submitted that security





of employment is an improper method by which to obtain effective employees and secondly that equal security, pension rights, medical services, etc., obtainable in industry today are on a par with those obtained in the public service. There is some indication that this situation is slowly being realized by the various governments and when Public Service salaries become competitive with industry the hundreds of vacancies existing will begin to fill, imposing an additional drain on the supply of professional engineers.

Referring to (d) above, a reasonable projection of Table One would seem to be:

<u>Year</u>	<u>Total Labour Force Ontario</u>	<u>Professional Engineers</u>	<u>Proportion</u>
1965	2,600,000	26,000	1 to 100

Canada made a rather successful attempt to ensure that the attendance at engineering schools was maintained at a reasonable level during the war years with the result that the shortage in Canada is thought not as serious as it would appear to be in the United States. This situation is resulting in a drain on Canada's supply of graduate engineers; a drain that has been held in check to some extent by the rigidity of draft regulations in the United States. As the needs of the American Armed Forces grow less year by year, there is indication that the hazard of the draft will cease to act as a check, and the present trickle across the border, of Canadian trained professional engineers, may reach serious proportions.



## THE PROBLEM

The technology of industry today is ever growing in complexity. No country can survive as an industrial nation which does not recognize the need for providing the facilities and incentive to ensure that an adequate number of its brightest young men and women be educated to be able to fill adequately the technological positions in industry.

We feel that Canada is much more urgently in need of the highest level of technological manpower than most other countries. This is due to the fact that 25 percent of our annual production is exported. In many lines of manufacture we cannot compete in the world market on the basis of labour costs and therefore must resort to other devices. One of our most necessary competitive weapons must be excellence of engineering, in design, in production and in invention. We can no longer, as a nation, afford to lean upon larger neighbours and ingenious European nations for our basic scientific and technological ideas, but must step out boldly into the future upon our own industrial feet. One large Canadian company is daily reducing costs to enable it to compete in foreign markets by attacking the production of its products item by item. Such questions are asked us -- Why do we make it thus? -- Can certain parts be eliminated? -- Are certain operations necessary? -- How can we re-design for cheaper production? If Canada is to survive in the industrial world of the future, this type of approach must be expanded. That Canada is capable of such technological pioneering is





evidenced by our contributions in atomic fission and in jet plane development.

Mr. Chairman, you may be interested to know that in a large company although it is a product of a large American company, they have 50 committees working all the time on improvement of the product and I asked an executive member in charge of this work if they were taking the attitude that they could improve upon American designs and he assured me that their attitude is that they could improve on any design of any product that is handed to them and they are attempting to compete in the international market by taking a machine and assuming that they can re-design and re-develop that machine at a cheaper price although their labour costs are often three times what the costs would be in Japan, Germany and so on.

Studies by the Education Division of the Dominion Bureau of Statistics would indicate that the institutions of higher learning, in Canada, will be called upon to handle steadily growing enrolments in the next ten years. The growth trend in these enrolments is shown in Figures 1 and 2 attached. Our studies lead us to believe that the increase in engineering students may be proportionately greater than the increase for other faculties. This presents the Canadian engineering schools with a formidable and critical problem; formidable with respect to magnitude and critical with respect to the national economy. For the past ten years the country has never had enough engineers despite the fact that enrolment in engineering



courses has not essentially been restricted, and despite the fact that most Canadian engineering schools are operating at peak capacity, according to any real definition of that word.

It is absolutely essential that industry, government and the engineering profession realize the magnitude of the job and take vigorous, co-operative steps to lift part of the load from the universities. The product of the engineering school -- the educated engineer -- is one of the most, if not the most important products of the country in the realm of Canada's future economic progress.

And then follows two paragraphs of university financing which points out that the universities actually are in a poorer position now than they were in 1931 in the proportion of the national income that they are receiving and that corporations have not taken advantage of the full tax deduction as regards assisting universities.

#### THE NEED

The accommodation required (that is for universities) will necessitate almost doubling the present volume of laboratories, lecture rooms, offices and other buildings. A conservative estimate of the finances required to bring about this growth in physical plant in the engineering faculties will be 60 million dollars at the rate of 12 millions per year for the next five years.

For new laboratory and research facilities the engineering colleges require at least two million





dollars per year for each of the next five years.

The matter of staff may well be the most difficult problem of all. The colleges are in direct competition with industry for the young men of mental power and character who must be recruited for staff if the colleges are to properly fulfill their destiny. Not only must professorial salaries be increased to bring them into a more realistic position with going industrial rates, but other desirable features must be developed. Younger engineering staffs must be encouraged and have the opportunity to pursue scholarly studies not only in Canada but in every country of the world. That, Mr. Chairman, is very dear to my heart. I have a feeling that your Commission might well find that one of the greatest contributions that could be made to this country's future would be to enable the keenest young Canadians to study in every country of the world so that 10 to 15 years from now we might have an international professional staff equal to that in any country of the world.

THE CHAIRMAN: Do you think they would come back here?

DR. LORD: Yes, they would come right back here. I think if we could send young men out to any country that is advanced in any line and it is not a case of sending them all to Germany or the United States or what have you; certain countries are leading in certain things and I feel that would be a place where money would be well spent and if it would make itself felt in Canada's industrial future it would be worth while.



The engineering staff problem is an urgent one. It must be attacked at once. The building up of engineering staff is a long term proposition and the process must be started now if the hordes of 1965 are to be handled. Then follows a short paragraph on technical institutes.

#### TECHNICAL INSTITUTES

The engineering profession is affected by the shortage that presently exists for all types of trained technicians. It is suggested that study should be given to the expansion of such senior technical schools as Ryerson Institute of Technology. There is a definite need for this type of senior technical school. It is, however, considered that rigid control of the curricula of such schools should be maintained to ensure that the graduates will be well trained technicians rather than border line engineers. Just there I would like to say that in the United States -- I want to mention this a little later -- they are taking this matter very seriously and I listened to a paper in New York last Thursday, one of the bigger companies, Westinghouse as a matter of fact, opening a new electronics division in which they needed 800 engineers. Realizing they could not obtain them all they had gone into the matter of technicians as assistants and they have worked out the rule there that every engineer should have on the average two technicians to help him. Then follows a section on Professional Recognition.

#### PROFESSIONAL RECOGNITION

Professional recognition is of the greatest importance to the young graduate. The engineering





profession is faced with a problem that does not exist in most other professions, in that 90 percent of its members give of their professional services on a salary basis. As many as 900 professional engineers are employed by one employer. There is some tendency on the part of such large groups to lean towards unionization to secure adequate consideration by employers of salaries and working conditions. Federal and Ontario labour laws presently exclude professions from collective bargaining units. The Association believes that it is in the best interest of industry and of the country's economy that the professional engineer subscribe to one loyalty -- his professional body. If this desirable condition is to be maintained in Canada, it is essential that the employers of professional engineers give greater consideration to the problem of professional recognition. That is, they would not be part of a labour union. It is an anachronism that in a time of opportunity engineers feel frustrated, yet that is the situation that exists and it is continent wide. Fact finding committees admit it. Little is being done to correct it.

The Association realizes its responsibility and is endeavouring to cope with the problem. One of the means being adopted is indicated by the attached bulletin "Professional Recognition".

It is suggested that industry is aware of the problem but is procrastinating. Governments at all levels should lead the way by ensuring that professional recognition is accorded to the members of the engineering profession in the Public Service.



THE CHAIRMAN: What do you mean exactly?

DR. LORD: That, Mr. Chairman, is a very difficult thing to define. I can't put my hand on it myself but I would like to explain it to you. I have sat on a committee as between the Council of the Association and a group called the Federation of Professional Engineers in Ontario who are the closest thing to the labour union of the professional engineer and tried to get to the bottom of what this unrest is -- and it is not only in Canada, it is across the United States -- and they are worried about it. I think if I could put my finger on it at all it is because the organizations have grown in size and where in the early days you had half a dozen engineers who reported directly to the manager or plant superintendent now you have industries in the United States where you have 4,000 or 5,000 engineers and management has not in all cases dealt with these men in an independent manner. They have said: "Well, 5,000 we will deal with them like labourers, we won't tell them what is going on" and these people are sitting out there, designing, they don't know what the view of the company is, they are only a cog in the wheel, they don't know the chief engineer, they don't know what is going on and so on. The Association has brought out and I have put it in the back of your brief, something on professional recognition and I would like to read from this now. It may help to explain this idea.

There are problems. They can be solved. Often they exist primarily because engineering departments





have been expanding so rapidly that there's been little time to recognize that there is a problem, let alone solve it.

The crux of the problem may be contained in results of a survey conducted by the University of Chicago recently. After a poll touching thousands of industrial employees, the researchers said that engineers "seem to be far more frustrated than satisfied". They put down that sense of frustration to this: a conflict between what engineers expect and what they find industry actually offers them.

That conflict is a natural one.

In the last twenty years the engineer's life has changed.

Where once he worked by himself or with two or three contemporaries, now often he finds himself as one member of a large project team.

Where a company employed only a few professional engineers, it was easy to keep them informed as to management's main purposes; where hundreds are now employed it is infinitely more difficult.

In other words, you can't, with a professional man who looks beyond his role to the interests of his employer and the development of the business -- you can't do that and not tell him what your plans are.

THE CHAIRMAN: You can't do that with anybody and expect to get any results. That is what we are trying to get at, where the distinction is between an engineer and any other intelligent trained employee.



DR. LORD: There is not any distinction, no. I don't mean to say that the professional engineers are any more mentally marvelous people than a lot of men in industry but I think in a technological business they must be kept apprised of what the management is trying to do. I was talking on Saturday to a vice-president of a large company in Montreal employing over 1,000 engineers. This man is manager of one of their divisions and he says he realized the unrest was reasonable and he called in every engineer in the plant and said: "Now, look, gentlemen, here is what I have got to worry about in the next year. If we are going to stay in business this is what we have got and I want your help", and he said there were questions asked for the next hour and a half.

THE CHAIRMAN: I think that is fine. It would seem to me it has much wider application than to just engineers.

DR. LORD: Probably you are right, but it is just using the ability of a group to the maximum advantage. I am sorry to say there are large industries in Ontario where management will not meet with its engineers to discuss problems.

#### RECOMMENDATIONS

1. That expansion of the building facilities of the Canadian engineering schools be commenced at once. It is suggested that this will require 12 million dollars per year for the next five years.

2. That research and laboratory equipment for engineering schools be provided over the next five years in sufficient quantity to meet the increased





enrolment. It is estimated that this will require an expenditure of 2 million dollars annually.

3. That a study be undertaken at once to find ways and means to improve the position of engineering staffs and that such study consider:

(a) Staff salaries and loads.

(b) Recruitment of senior staff

(c) Provision of funds to permit graduate study in engineering schools of other countries by junior staff.

4. That since industry is the main user of the product of engineering schools, some form of attractive tax deduction be introduced to encourage more liberal support of engineering schools by industry.

5. That consideration be given to expansion of senior technical schools.

6. That in the report of this committee industry be urged to give serious consideration to according professional recognition to engineering staff.

In conclusion we wish to point out that the post war flood of students handled by the universities bears no resemblance to the situation facing them today. This was a "bulge" of short and foreseeable duration. Improvisation was the sensible answer. Tomorrow's numbers will continue with us into the foreseeable future. Improvisation is not the answer.

A formidable problem of basic interest to Canada's economy faces us. For its solution are required careful planning, money and speed.

Now, I have suggested to you that I have



an appendix here and I think you will see why I have put it in.

THE CHAIRMAN: Do you want to talk about the appendix?

DR. LORD: Would you like to let me go through the whole thing? I apologize a little for this first, but we discussed this in our Council and our feeling was 50 percent we should not bother you with it, but on the other hand the majority thought we should go on record as opposing the view that was made before your Commission and therefore I am reading it.

1. "Hewers of Wood and Drawers of Water"

The Association of Professional Engineers of Ontario was greatly perturbed by the news reports of a statement made before this Commission by Mr. R.M.Fowler, President of the Canadian Pulp and Paper Association -- "that Canada's best future role is to remain a hewer of wood and drawer of water". We cannot believe that this Commission -- or, in fact, any large group of enlightened Canadians -- could subscribe to such a thesis. This Association believes firmly that any plan such as this would be contrary to the best interest of the country's industrial and technological development.

It must be evident to all that, in an age of nylon, plastics, jet engines, transistors, television and nuclear fission -- any such attitude, as that suggested by Mr. Fowler, can only lead to industrial suicide and would stifle the growing research and development prowess which Canada is displaying in a very





marked degree.

In a world of electronics, chemical wonders and atomic power, any existing element, material or product can be replaced over-night by a new product. Even newsprint may be subject to replacement by a cheaper synthetic substitute.

The Association feels that industrial expansion through technological development is the keynote to Canada's continuing prosperity and it is inconceivable that we should turn back the clock or our present and imminent progress in the field of science and technology. Canada's automotive, newsprint, aircraft, farm equipment, chemical industries cannot be lightly dismissed when thinking of the future. The pulp and paper industry itself has successfully merged primary and secondary industries into the largest single industry in Canada. But even this great industry must be aware that research, development and a search for new uses for its products will be the only safe way to ensure a prosperous future.

It is suggested that a country which adopts a "hewer of wood and drawer of water" policy might soon find itself relegated to the status of a fifth-class nation. And the point I am ready to make there, I think, is obvious to the Commission and that is today I don't care what your product is in today's world we are not living back in the 1830's. Even the products of agriculture may be completely displaced.

THE CHAIRMAN: I would like to interrupt at this point for a moment. Mr. Fowler prepared an



extremely valuable and able brief which was submitted to this Commission. This Commission is under a great debt to Mr. Fowler and the Canadian Pulp and Paper Association for really a very fine piece of work. He expressed views which were reasonably qualified and which certainly did not give me the impression that he was suggesting we go back to the Dark Ages and I think we should not just pick up one phrase and read too much into it. Personally I am sorry that Mr. Fowler has been attacked in the way he has been because as far as this Commission is concerned we are under a great debt to him.

DR. LORD: Well, as I say, that is just a note on that. Then I wanted to refer to a paper by Lewis L. Strauss, Chairman of the United States Atomic Energy Commission and read the paragraph there and I wanted to read one or two items which might explain some of the information in our brief.

"If there is to be another war among the great nations of the world before the human race discovers a method of abolishing recourse to combat, that war may be survived by the country with the greatest stockpile of nuclear weapons and instruments of their delivery. But such a war will almost certainly be lost by the country with the fewest resources in trained manpower."

We had wanted to put something in our brief concerning the necessity for the development of research in this country and to refer to the situation behind the Iron





Certain but very little information has been available up to the time of the Geneva Conference and I thought I would just pass this on to you, with compliments through Mr. Strauss, that in the United States they require about 50,000 engineers a year and the crop this coming June or last June would be 23,000 and carrying that over to Canada we have made the statement that Canada should be then getting engineers in the neighbourhood of possibly 2,500 next June which, to be comparable with the United States -- and they are going to be 1,675. There is just one reason why we bring that up and that is I would like to draw to the Commission's attention Mr. Strauss' statement that they do not feel the numbers in the United States can be greatly increased because of the fact that the high school teaching in mathematics and physics is deteriorating there and people in Canada have told me there is some tendency here whereas in Russia especially by making it compulsory for their students to take scientific courses and also to make it worth while for their people to go into science and mathematics teaching -- I don't know what may be the method of compulsion -- they are getting plenty of teachers whereas here and in the United States it is deteriorating to a great degree, and that is a very great and serious result which you would no doubt like to consider for your recommendations.

I might regret now that I brought in that matter of Mr. Fowler because I would hate to think that the more important things as presented here



would be clouded by any reference such as that.

THE CHAIRMAN: If the Americans are going to be short of 25,000 odd engineers per annum and therefore will have to go out and attract engineers from anywhere at any price, is there any point in increasing the number of Canadian graduates?

DR. LORD: I don't know, Mr. Chairman. I realize ----

THE CHAIRMAN: Now, it was in one of your recommendations that since industry is the main user of the product of engineering schools some form of attractive tax deduction be introduced to encourage more liberal support of engineering schools by industry. Well, the tax deduction is already there; industry doesn't take advantage of it.

DR. LORD: Yes, but 5 percent.

THE CHAIRMAN: So what else is needed? In the United States they will allow an industry to deduct up to 30 percent, I believe, of its income for donations to universities but if our industry does not use what it is now allowed, what can you do?

DR. LORD: Well, I have a feeling that there is not a complete awareness on the part of a lot of industry as to its responsibility in that regard.

THE CHAIRMAN: Well, do the Canadian industries that employ great numbers of engineers (you mentioned one that had 1,000 engineers on its payroll) make any substantial contribution to the engineering faculty of this university?

DR. LORD: No, they don't. We must be fair





there. I think there is a tendency in the case of state operated institutions for industry and all others to take the view that it is not their concern, whereas a lot of the very prominent United States educational institutions such as Harvard and Massachusetts Institute of Technology, to mention only two, are what are sometimes called private institutions and can make probably a broader appeal to industry and government.

THE CHAIRMAN: Well, I dare say that is the attitude but it does not seem to me a complete answer, though.

DR. LORD: No.

MR. GRAUER: I think there may be something to this, that industry in Canada has taken quite a while to lose the depression complex and is afraid of a recurrence of what happened in the '30's, and there seems to be a very definite trend now towards acceptance of the proposition that we can have a stable and expanding economy. Under those circumstances I would expect myself industry would get considerably more generous than it has been in the past.

DR. LORD: Yes.

THE CHAIRMAN: I agree with that but I think somebody has to sort of put the idea in industry's head occasionally and I wonder if the Engineering Faculty of this university is in a position to do that.

DR. LORD: There is not any doubt that it could be improved but how to do it I don't know. On the question I brought up, Mr. Strauss' article, it sometimes worries you quite a lot when you think of the fact that



in the last war the United States just beat Germany and the enemy by a short period of time in the production of the atomic pile. It seems to me almost a foregone conclusion that if they had developed it first we would have lost the war. One of the reasons why the Germans did not develop it was Hitler's shortsighted attitude towards development and support of his technical people, that is, his ruthless disregard of the fact that if you are going to advance scientifically and technically you just cannot leave it to chance; in other words, he persecuted his best men for various reasons, religion and so on, and lost them.

I have a personal feeling that in the future development of this country we cannot lose sight of that fact. I don't care about the pulp and paper industry or any other industry, you can't argue that because you have a lot of natural resources you are going to be a happy, prosperous country in the future. I just wanted to leave that idea with you.

THE CHAIRMAN: Thank you very much, Dr. Lord.

We will adjourn for lunch.

(At 1.00 P.M. the Commission adjourned until 2.30 P.M.)





A F T E R N O O N

S E S S I O N

APPEARANCES:

Mr. J. S. Duncan, Chairman and  
President of Massey-Harris-Ferguson  
Limited.

Mr. A. G. S. Griffin, Vice-Chairman,  
Mr. S. C. Legge, Secretary.

Mr. P.J. Chadsey, Chairman,  
Security Analysts Association of  
Toronto.

Mr. H. C. Andreae, Dominion Anglo  
Investment Corporation Limited.

Mr. George Armstrong, Canadian  
Business Service.

Mr. H. C. MacKendrick, Sales Manager,  
Canadian Importers & Traders Association,  
Inc.

Mr. J. D. Cowan,  
Mr. T. Oakley.

Mr. Stewart Preston, President,  
Canadian Transit Association.  
I.S. Fairty, Q.C.

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THE CHAIRMAN: Well, Mr. Duncan, it is  
very nice to welcome you back again. We hope you are  
going to make this a habit.

MR. DUNCAN: No, I think this is the end  
of it, Mr. Chairman. I am sorry Mr. Tony Griffin, who  
took a great part in the preparation of this is not  
able to be with us.

THE CHAIRMAN: We will mark your brief  
Exhibit 171.

Would you like to start in?

MR. DUNCAN: Gentlemen, we have submitted  
a brief on the Dollar Sterling Trade Council. I have  
tried to boil it down in this short resume which I will



give you now.

In our brief we have outlined the origin and purpose of this Council which was established in October, 1949 as the Dollar Sterling Trade Board with its encouragement and support of the Federal Government. It was a private group representing a cross-section of Canadian businessmen. Its purpose was to assist the United Kingdom to regain a larger share of the market in Canada for imports. This was deemed to be in the interest of Canada as a means of safeguarding Canadian export markets in the United Kingdom and Sterling Area. The shrinking tendency in these markets was viewed as primarily a result of the Sterling Area's dollar shortage; therefore, any alleviation of that shortage would be helpful to the sale of Canadian exports.

We have referred to the formation of the Dollar Exports Board, a similar body in the United Kingdom, set up early in 1949 to stimulate Britain's drive for greater exports to dollar markets. In the course of time, the function and titles of these Boards have been changed somewhat with the setting-up of other bodies with similar purposes, but their objectives have remained unchanged.

We have referred to the changing attitude in Canada toward imports as exemplified by the fact that a body such as this Council, having the purpose of assisting another country to increase its sale of goods in Canada, would have been very improbable prior to the Second World War. At that earlier time, the prevailing





opinion, in Canada and abroad, was that promotion of exports was an essential national objective, whereas promotion of imports was neither necessary nor even desirable.

We have suggested that this change in attitude reflects a change in the nature and problems of international trade. Under the system of convertible currencies and multilateral trade that prevailed generally up to 1939, the development of export markets was primarily a matter of the competitive efficiency of the export industries themselves. Provided these industries could produce and deliver goods of equal or a little better value than their competitors, they could be reasonably sure of gaining markets abroad. In contrast, since the Second World War, the natural flow of goods to world markets has been checked and distorted by a maze of currency restrictions, import controls and other barriers to trade, which are primarily reflective of balance-of-payment problems that have affected most of the world's trading nations, the most acute and persistent being the dollar gap.

In this post-war situation, the sale of Canadian goods abroad is no longer governed wholly by the competitive value of Canadian products offered for sale abroad. It is influenced strongly, and sometimes primarily, by the dollar revenues of the importing countries. Therefore, Canada has a direct interest in the restoration of the dollar earning capacity of those of her customers abroad who have been in dollar difficulties.



We have suggested that, for historical and other reasons, the United Kingdom and Sterling Area are the most important of the many Canadian markets that have been subject to these balance-of-payment problems.

We have touched briefly on the fact, that has been adequately documented to this Commission, that Canada derives an exceptionally high proportion of her national income from exports, that this condition derives from the solid facts of Canada's population and resources, that it has been advantageous to Canada and that all present indications suggest this condition will continue into the future as far as it is possible to make an intelligent prediction.

Accepting the inevitability and desirability of a high reliance on export markets, we go on to suggest that the United Kingdom and Sterling Area markets are of special significance to Canada, despite the fact that they now buy less from Canada in aggregate than does the U.S.

The United Kingdom market is the largest export market for wheat, an item for which we cannot hope to find a stable, dependable market in the U.S. in the foreseeable future. Most of our leading exports are not produced in the United Kingdom, hence our exporters meet little domestic competition in the British market. Moreover, the United Kingdom has historically favoured a low tariff policy.

The other Sterling Area countries, being in the main lightly industrialized and in some cases giving Canadian goods preferential entry, appear to





offer opportunities to our secondary manufacturing industries which find it difficult to compete in the U.S. against the mass producers of that country.

We recognize that the U.S. market is the largest export market in the aggregate. Nevertheless, we suggest there are some difficulties and danger in relying too heavily on the U.S. market for our exports. Many of our primary products are competitive to some extent with domestic industries in the U.S.; therefore, our sales are vulnerable to sharp reduction in periods of falling demand. The tariff policy of the U.S.; and U.S. customs procedures have been a serious impediment to the development of markets for Canadian agricultural products and secondary manufacturers. Even in some primary products of which the U.S. is a large importer from Canada and elsewhere, there have been recurrent threats of increases in tariffs. We have mentioned these points to reinforce our contention that the U.K and Sterling Area markets offer potentialities for Canadian exports that are superior in some respects to our opportunities in the U.S. market.

Nevertheless, our post-war experience in British and Sterling markets has been disappointing. Our sales to the U.K. were approximately static from 1946 to 1954 and while they rose about 30 percent in 1955, there is some doubt whether the United Kingdom can sustain this higher rate of purchase. Our exports to other Commonwealth countries, which were a growing percentage of our total exports over the half century preceding the second war, have been a shrinking



percentage since the war.

We suggest that these adverse trends are primarily a result of the Sterling Area's dollar shortage. We have mentioned briefly the long-term economic trend that has been adverse to the United Kingdom, as a manufacturing nation with meagre domestic material resources, through the 20th century. This adverse trend, combined with the crippling effects of the war, has seriously weakened Britain's external economic position and led to her chronic difficulty in achieving a reasonably stable balance of international payments with the world as a whole and with the dollar area in particular. These difficulties have led the United Kingdom and Sterling Area, in common with other countries, to apply restrictions to imports from dollar sources, as a measure of maintaining international solvency, despite the disadvantages of thereby creating shortages or having to procure at higher prices from soft currency sources of supply.

Thus Canada has a direct interest in taking measures to enhance the dollar revenues of the United Kingdom and Sterling Area up to the point where these countries feel able to remove all discriminatory restrictions on import of Canadian goods. So long as they have a dollar shortage problem, they are likely to limit their dollar expenditures; therefore, if Canada hopes to enjoy expanding markets in these countries, it is in our national interest to take whatever practical measures we can to assist them in building up their dollar earnings.





To illustrate that, the latest figures we have are the first nine months of 1955 and we exported to the United Kingdom in round figures \$600 million worth of goods and we imported from them only \$300 million of goods so that works out to a trade deficit for them with us of \$300 million. As long as that sort of condition exists -- and it has been existing for a long time, since the end of the war -- the British find it difficult to buy in this country the things she would like to buy and therefore it is cutting down a possible good avenue of trade.

I would like to go a little farther. We have had some meetings with the Dollar Exporting Committee in the United Kingdom headed by Sir William Rootes and also with the Minister of Trade. They were quite frank in telling us that unless this situation could be corrected that they questioned with the adverse balance of trade which is running against them, whether they would not be obliged to radically cut down again their imports from this country.

THE CHAIRMAN: Imports of what, Mr. Duncan?

MR. DUNCAN: Wheat and things like that, bulky raw materials. They did state that they cannot really afford this imbalance of \$300 million and therefore they would have to cut it down.

We believe Canadians can make a practical contribution toward this end by diverting purchases of imports from the U.S., which already has a large surplus in trade with Canada, to the Sterling Area wherever such diversion can be made on a basis of sound competitive



values. We recognize that a similar diversion of imports toward other countries that have a trade deficit with Canada would present some advantages, but we emphasize the position of the United Kingdom and Sterling Area for two reasons.

(1) Historically, the United Kingdom and Sterling Area have provided our largest export markets with the exception of the U.S., and the nature of their import needs appear to offer particularly favourable opportunities for sale of Canadian goods if their dollar problem can be alleviated.

(2) As sterling is an international currency customarily used by many countries outside the sterling group, any strengthening of sterling is indirectly helpful to Canadian export opportunities elsewhere.

We also mention the preponderant position of the U.S. in respect of foreign investment in Canada. British capital played an important role in the early development of Canada and continued to represent an important part of total foreign investment through the inter-war years. Since the second war, and largely arising from it, the United Kingdom proportion has fallen to 17 percent in 1954 whereas 77 percent of all non-resident investment in Canada in that year was held in the U.S. Available evidence suggests this U.S. investment is highly concentrated in manufacturing and natural resource industries.

We do not oppose investment in Canada from the U.S., but we suggest that its preponderance





may be somewhat inimical to an independent Canadian economic development, particularly as much of it appears to be in a form that is associated with management control.

THE CHAIRMAN: Isn't that contradictory to what you say in the brief when you say that you do not recommend investment in the United States should be discouraged?

MR. DUNCAN: Well, put it this way. I cannot personally be opposed to foreign investment in this country from any quarter because to my mind that has been the very basis of Canada's development and when you compare it with these companies that have a nationalistic view of it, it can be seen that our prosperity cannot be just accidental. It originally came from the United Kingdom and then the United States. All I am saying is this, that I would like to see a little more coming from the United Kingdom and perhaps a little less from the United States because this preponderance is becoming, I would not say embarrassing, but nevertheless it can come to the point where we would feel that the great excess of it was perhaps crippling our own international accounting.

THE CHAIRMAN: In other words, you would like the total to be of the same proportion but you would like to have it divided up differently?

MR. DUNCAN: I have no objection to it coming in but I would like to see a little more from the United Kingdom and a little less from the United States. I would like to see it more evenly divided.



As an offset to this U.S. preponderance, we would welcome a greater flow of capital from Britain which can only come about if Britain's dollar resources are augmented. I think, Mr. Chairman, that this problem is tied up to a certain extent with our position within the British Commonwealth. If most of us -- and I believe we do -- believe as strongly as I do that one of the greatest forces in this world today is the British Commonwealth and it has to be preserved and built up then the more capital we can get within ourselves and perhaps less from our great and generous neighbour to the south, it is to our advantage to do so.

THE CHAIRMAN: Just on that point, Mr. Duncan, if Britain could only invest in Canada by arranging her trade in Canada in such a way that she has a favourable balance in her currency account instead of an unfavourable one, assuming that that were possible, would we not be better off to invest our own money in this country?

MR. DUNCAN: Well, I am assuming we will invest or we have to invest, is that not so?

THE CHAIRMAN: Well, if we purchased more manufactured goods from Britain than we are doing at the moment so that Britain had a favourable balance of trade with us and therefore had funds with which she could make capital investments in this country presumably to accomplish that we would not need to go that far; we could surely balance things up and invest it ourselves rather than putting Britain ---

MR. DUNCAN: Not if she follows the thesis which we have supported. We have simply suggested to





Canada that she should import less from the United States and more from Britain. We are not suggesting she should run down her national wealth by doing less herself; I have never suggested that but I am suggesting that on the things which she does import she should be more selective in her importing.

Furthermore, of course, Britain's ability to invest in this country is not solely based on a balanced trade condition. She is investing in this country and has been for the last three or four years due certainly to a favourable balance of trade on the whole but it has not been balanced with Canada. She has been investing \$100 million a year.

THE CHAIRMAN: I think that is the real factor and not the way it is invested here.

MR. DUNCAN: Now, if our contention that Canada has an interest in diverting import procurement toward Britain and the Sterling Area be sound, there remains the question of how best to accomplish this purpose.

We do not regard it as primarily a matter for government action. Fundamentally ours is a free economy. Canadians enjoy as wide a measure of freedom to purchase goods or services from sources of their choice as do the people of any country. We do not advocate any infringement of this freedom of choice nor do we believe such infringement would be acceptable to Canadians.

But we suggest that this freedom carries a responsibility with it. If a national interest would



be served by redirecting our purchases toward the Sterling Area, it is a responsibility of individual Canadians to make an effort to find opportunities to do so. We have suggested broad fields where new opportunities might be found, such as the broad field of industrial components and semi-finished goods, but in general, we believe that the individual buyer, acting in full awareness of the nature of his needs, is the one to determine where it is possible to divert purchases from the U.S. without economic loss. We believe that much of our heavy procurement from that source is based on habit, ease of conducting business near at hand, lack of knowledge of availabilities in the United Kingdom or other factors that do not imply a clear-cut economic advantage.

If our views in this respect be accepted, we recommend that your Report to the Government of Canada include a recommendation to all Canadians, in their capacities as consumers and business operators, to promote a national interest by a positive and continuing effort to redirect a part of their purchases of imports toward the Sterling Area countries.

As regards government policy, we commend the Government for pursuing a liberal trading policy relative to the Sterling Area. We are conscious of the fact that some domestic industries have felt the effects of strong competition from the United Kingdom as well as from other external sources of supply. While not wishing to minimize the difficulties of these industries or their employees, we suggest that a





broad national interest is served by a liberal policy toward Sterling Area imports, that the disadvantages that would accrue to Canada from any inhibition of Britain's dollar earning capacity at this time would be as great or greater than any advantages that might accrue to domestic interests.

Finally, we mention that governments at all levels in Canada are huge buyers of goods and services; therefore, it is important that their purchasing policies embody the same active interest in channelling import procurement toward the Sterling Area as we have recommended for private buyers.

The foregoing has covered in very condensed form the issues which we have set forth in our brief which also contains some statistical tables of Canada's external trade, based on Dominion Bureau of Statistics reports, to illustrate some of the matters mentioned therein.

There is a vast reservoir of goodwill in Canada toward the United Kingdom and a general acceptance of the desirability of greater U.K.-Canadian trade. But something more than passive goodwill and agreement in principle is required to meet the challenge presented by the problems of U.K.-Canadian trade at this time.

We expect that this Commission's report will become an important source of guidance not only to governments but to Canadians in general in the conduct of their affairs. We believe that a statement by the Commission of the important part that can be



played by individual Canadians in the solution of these trade problems would be a strong constructive influence.

MR. GRAUER: I think the central thesis is strong enough. It is by voluntary government selection that some 10 percent of the demand that is now going to the American market will be transferred to the British?

MR. DUNCAN: Right.

MR. GRAUER: There are a few smaller points I want to ask you about. On page 12 you say:

"Other things being equal, these lightly industrialized countries would appear to offer much better opportunities to develop export markets for secondary manufacturers than the heavily industrialized United States."

I take it for a fact that the trend is for the so-called under-developed countries to try to get industrialized in a hurry. In fact there seems to be a world wide trend for the agricultural countries to subsidize industry and the industrialized countries to subsidize agriculture. Would not that trend rather catch up with us insofar as the lightly industrial countries have small markets anyway whereas we are stuck with our geographical location with the United States next door which does happen to have just the largest consumer's market in the world. The other day you did show us how one company managed to develop very extensively in the United States. There is not very





much more hope for Canadian industry in developing their imagination and resource possibilities of the Canadian market than in these lightly industrialized countries. That is merely an opinion but I don't know if you had anything in particular that you based that on.

MR. DUNCAN: You know, I am conscious of, and told you the other day, of the tremendous drive in many, many countries to industrialize themselves. Those drives are not always successful. Furthermore, they don't usually embark upon embodying the whole line of whatever they happen to be doing. We find quite frequently that the countries, not that they can't buy something because of lack of dollars, but because of other more normal reasons, we find frequently the country will industrialize itself and build certain lines of, say, our line of implements and when the bigger stuff comes out they are not in a position to do that.

We have come through phases where we lost our market in France after the post-war period where we built horse-drawn equipment. Then we came into the post-war period when the markets had switched around to automotive type of equipment. The French industry was not equipped to do it and we shipped in large quantities from Canada to France to take up this slack. At the present time they are turning that over to us but there will be some new development. I think it is important to be in those foreign markets and I would be the last one to say they should develop



at the expense of this country. I would like to see it develop to all there is in the lesser countries and the home market and the United Kingdom at the same time.

MR. GRAUER: Yes, that is what your company does think of, all there is?

MR. DUNCAN: Yes.

MR. GRAUER: On page 24 you refer to the use of surveys which disclose a wide range of goods in the U.K. to satisfy the needs of industry in Canada. Do you find that there is a field where British industry -- I will grant you goodwill you mention in this country towards United Kingdom -- but there are some indications from there that they are not focussing their sales methods sufficiently on the direct requirements of this country. Is that something that is being attended to?

MR. DUNCAN: It is something that is being worked very actively on and that is what we are referring to here. People often come to me after speeches and things and say: "Well, if Britain requires to send them over here, let her come in and sell. What are you worrying about?". Well, if we had no interest in her selling to us that would be a very reasonable argument, but I maintain we have a fundamental interest in her selling to us because it is the only way we can sell to her. I think in doing so we must give assistance. We have sent over various delegations in the pulp and paper industry, mining industry and so on. They have gone over to England and





made a survey of the things they require and can use and they have encouraged and excited the people over there to build things they need and come over here and do it. We have done the same thing. We have gone over there, had big meetings and tried to stimulate selling in this country. In many cases it does not need that stimulation. In many cases the British manufacturer is keenly alive to the necessity for exporting but this is not an easy market, and many times when the British come into it for the first few years they don't do very well. As you know the British economy is on a very full basis at the present time and there is a great demand for everything she is doing in other markets so it is not an easy job and it is one certainly in which I think we have got to work together with Britain.

MR. GRAUER: How could we have enough purchasing over here? Do you have any suggestions?

MR. DUNCAN: We think you are going to do it with your Commission.

MR. GRAUER: We are very flattered.

MR. DUNCAN: Through our committees and the people working with us we have held numerous meetings, we have made a large number of speeches in which we have explained the reason why we should buy more from there. We have sent people out to see the big buying people such as Hydro electric and so on. It was not difficult. We approached the Canadian National Railways and the Canadian Pacific. We write letters -- I do myself -- every six months to general



stores and to industries and what not pointing out the problem and asking them to go through their costs and see if they can't switch from United States to United Kingdom. That is about all one can do unless one were willing to spend a lot of money on advertising. Our company gets nothing for it at all. It is just something that is done automatically. If we had money or the government wanted to give us money we could put on a big campaign and do this thing more properly but outside of what amounts to advertising and public relations service, I see no better way of doing it than we are doing it now.

MR. GUSHUE: Wouldn't advertising naturally be a matter more for the seller than the buyer?

MR. DUNCAN: I would say that if we could go in for such a campaign we would find the British people would be perfectly willing to put in at least half the expense and maybe more but we would have to raise the rest in this country. It is solely a matter of to what degree to go. We have got this fundamental interest of building up our exports so as to safeguard our imports. If we had this session in Saskatoon at the present time you would not have any trouble convincing the people that we should buy more British goods because they are wondering where their wheat is going.

MR. GUSHUE: You have not gone so far as to suggest this be stimulated by government action?

MR. DUNCAN: I have not suggested it because I am not a governmental enthusiastic man but all I am saying is that as a council, we have no money at all and





we are doing it as a personal thing. The British Government supports our opposite number with a very substantial amount of money because they recognize that these things can better be done if there is money to be spent. I have not approached the government. The government in the early stages did make a contribution of \$15,000 and yet when we got started they gave us peanuts to work with. At the present time there is no money in it at all. I have not approached the government. It would certainly be a quick cut to arrive at the objective we have in mind.

MR. GUSHUE: I was not thinking so much of the government putting money into it and creating public demand but rather as to other types of government action. Isn't there a possibility when you are finding it a losing battle just by trying to stimulate public interest from time to time, to remedy the situation? I am thinking now along the terms of British preference and so on. It does exist but it has been cut into very largely after Geneva, etcetera, and even before but isn't there a possibility that you are fighting a losing battle by not having a government interest?

MR. DUNCAN: No, I think the people in Canada would respond to these things if they knew what it was all about. I have very remarkable letters on my files from a lot of people who have switched from American to British buying when they knew what it was all about. I find that the Canadian people always respond if they know what the score is. No, I am not discouraged. I don't think there is anything in the



results which should cause discouragement. When we undertook this campaign in 1949 we increased imports in the first year. But we are sufficiently optimistic to believe, Mr. Chairman, that between what is being done in Britain and what we are doing now when things stabilize a little bit when Britain can increase her industry or has not got the overflow pattern she has now, there will be a market built up in exports.

MR. GUSHUE: This may be a broad field but do you feel that one of the solutions which Britain ought to look at is the question of great emigration from England?

MR. DUNCAN: Well, you know, that is a subject which is often brought up and advocated by many prominent men in Britain. I have never been able to see it. Britain today needs every able-bodied man she has got available. We don't want to import the grandmothers, mothers-in-law, the maiden aunts; we want able-bodied men too. I don't see how that is a solution. It is easy to say that England would be better off without 20 million people.

MR. GUSHUE: I was rather thinking about the point one comes across so often. The fact that the trend has been moving for many years because the position in which Britain found herself a century ago, England being highly industrialized with little natural resources and therefore had to depend on buying raw materials from other countries. In other countries the trend has been steadily away from that in building up their manufacturing industries. Isn't it possible





the United Kingdom is fighting a losing battle there?

MR. DUNCAN: In relation to half a century ago that certainly is the case. Of course, further to my mind there is going to be a tremendous increase in the living standards of the world and therefore a greater outlet but particularly I think in the scientific development in which Britain seems to be particularly good and she might at any time press forth with a strong position in the atomic age or whatever it might be.

On the other basis that you mentioned there is no doubt that Britain is still continuing, as I understand it, to be favourable to her people leaving the country and establishing themselves in the British Commonwealth. It is not being very successful now because everyone can get a job at home but the government is not entering into that process and I am told on the average when a man goes and ships himself to Australia there are some members of the non-productive group in the picture, who finish up going there with him, perhaps his wife and wife's mother.

MR. STEWART: Might I just follow one line of thought for a minute, Mr. Duncan? You have emphasized the national interest in this matter because we have established in the United Kingdom historically a market for wheat -- other things as well, but let us concentrate on wheat, and your position is unless Britain is in a position to export more, in fact -- and it is a fact -- Britain will turn to other sources of wheat at whatever cost?

MR. DUNCAN: May have to.



MR. STEWART: Now, in much of the evidence which we have had in the last few days it is perfectly clear that there is a good deal of opposition in what is said to be, I think, seriously said to be in the national interest that we should not increase our imports. Supposing that that view prevails and we don't increase our imports and Britain then does turn to other sources of supply of wheat, the problem then turns upon the wheat producing areas. One possibility, I suppose, would be that we might find other markets. I asked you about this the other day when you were here and I gathered that you did not wish -- that you had no views on the possibility of us getting into other markets but I would suppose if we were thinking of the Oriental markets, we would have exactly the same kind of problem basically. Therefore, if we are not prepared to increase imports they are out as well as far as export increases are concerned so we have a situation where we are going to have declining exports of wheat. Wheat is not a thing we can increase our domestic consumption of very greatly, even with increasing population at the rate at which we are now producing and having in mind the normal standard of per capita consumption. The only possibility if we can't export is that in the wheat growing areas we may be able to shift over to livestock production and we had someone here this morning who suggested that would happen. But that is long range and as population increases there would be a good deal of shifting of wheat in the Prairie region to livestock, I would imagine,





but that would take place only over a period of years. But in view of this assumption that is made we are going to have a wheat problem with us for a very long time. Would that be correct as well?

MR. DUNCAN: That is based upon the assumption that we cannot improve our position which I am not prepared to accept. I think if we all work on it we can. Furthermore, it is assuming that on the assumption of not improving our relations with the United Kingdom and ourselves. I don't think that will be. She can build up her own dollar position of her own with the United States.

As to the west I was hesitant in replying at the previous time and I am still hesitant because I am not too well versed on that subject. I have seen many attempts in the west, and you have, in the depressed times of diversifying the production in the west and to a reasonable extent it was successfull -- more hogs and more beef and so on -- but there was definitely no selling of hogs and cattle might go the same way. Fundamentally it is an agricultural area. I don't know what it could be turned into in the event we needed to. It is more or less in the same category with things consumed in regard to Western Europe and I think it is a long range problem and one which I think we can do something about.

THE CHAIRMAN: Thank you very much, Mr. Duncan. We hope we didn't treat you so roughly that you won't come back and see us again. If you will, you will be more than welcome.



Well, if you will come to order, please, gentlemen, the next submission which we will mark Exhibit 172, is from the Security Analysts' Association of Toronto. I see you are sitting in the middle, Mr. Chadsey.

MR. CHADSEY: Mr. Chairman, the Security Analysts' Association of Toronto is honoured to have this opportunity of presenting to you our views on some factors which may affect Canada's economic future.

The brief containing these views has been prepared by a Committee of the Association under the chairmanship of Mr. H. C. Andreae and including Messrs. L. E. Barlow, E. S. Miles and J. M. Stewart. This brief represents the joint thinking of some of the senior analytical members of the investment fraternity in Toronto.

We have attempted to give support to certain of the points in our brief by citing as examples the names of specific companies operating in Canada. We trust it will be appreciated, however, that such organizations are taken as examples only. We do not imply that they should be especially singled out for comment.

Besides Mr. Andreae and myself there is in attendance today Mr. George C. Armstrong, Vice-President of the Association, who, with Mr. Andreae, will answer any questions you may wish to put. As President of the Security Analysts' Association of Toronto it is a pleasure for me to introduce to you Mr. H. C. Andreae, Chairman of our Corporate Reporting





Committee and Secretary of Dominion & Anglo Investment Corporation Limited, who will now make the formal presentation of our brief.

MR. ANDREAE: Mr. Chairman, for the sake of brevity I will delete a number of paragraphs as I go through the brief.

The Security Analysts' Association of Toronto appreciates the opportunity to present its views to the Royal Commission on Canada's Economic Prospects. The Association was founded in 1934. Its purpose is to foster high professional and ethical standards of investment research in Canada. Membership is comprised of about 145 persons representing many different sectors of the financial community in Toronto. A more complete description of the Society and its activities is to be found in Appendix A of this brief.

The function of a representative member of the Association is that of continually assimilating and appraising financial information which flows into the financial community. Relying upon such information he is required to evaluate the relative merits of individual securities. He must be capable also of assessing the importance of political and economic events in terms of their probable effect upon security prices. The following paragraph refers in detail to the membership.

One of the first principles of portfolio investment is that of diversification. In making portfolio recommendations, the analyst has a field of choice which ranges from Government bonds to speculative shares. Each portfolio must be tailored to the individual needs



of the investor, which vary greatly from those requiring the utmost in safety to those desiring primarily venture type investments. To discharge his duties to best advantage, the analyst therefore prefers to have as wide a range of choice in securities as possible to enable him to diversify investment portfolios adequately as to industry and as to classes of securities.

Compared to his American counterpart, the Canadian security analyst is limited in his scope for portfolio diversification. The American security analyst, for example, has a much wider range of industries and securities to draw upon in making his recommendations. In Canada, a large number of important companies are owned by private interests or by American or British parent companies and, as a result, direct investment in these companies is not open to Canadian investors. The Canadian analyst is at a further disadvantage in that the flow of corporate information concerning Canadian public companies is not as adequate as it might be. As an intermediary between public companies and the investing public, the analyst too frequently must rely upon relatively outdated and inadequate information.

The following paragraph merely refers to the letters of reference of the Commission.

#### FOREIGN OWNERSHIP

The Security Analysts' Association of Toronto wishes to go on record as favouring the participation of friendly foreign capital in the development





of Canada. While not opposed in principle to foreign investment in Canada, the Association however does wish to make several major qualifications relating to such foreign investment.

The policy of the Government of Canada has over the years been to encourage foreign investment. Regulations have been designed to aid and protect foreign capital and to allow free repatriation of principal, interest and dividends. Canada can point with pride to the treatment which it has accorded foreign capital.

Canada's open-door investment policy, however, has tended to produce in some fields of industry a noticeable reduction in the companies whose securities are available to Canadians. About 25 years ago the Ottawa agreements for Empire Preference led to the establishment of numerous branch plants in Canada on the part of American companies. This development was welcome at that time because it provided employment for Canadians at a time when economic conditions were depressed.

During the past 25 years Canada has grown immensely in stature and in its ability to provide its own investment and employment opportunities. This marks a sharp contrast with conditions in the 1930's. In the meantime, however, a number of ventures in Canadian industry have been profitably developed under complete foreign ownership. It is suggested that in the future, provision should be made for Canadian participation in such ventures. In addition, many Canadian companies, large and small, have been bought either in part or in



whole by foreign interests during the past 25 years. The Association wishes to draw to the attention of the Commission the cumulative effect of the penetration of such foreign capital upon the Canadian securities market.

In citing the following specific examples, the Association wishes to avoid the implication that the companies mentioned are especially singled out for comment. There are a great many enterprises in Canada subject to foreign control, far too many in fact to be mentioned in this submission. The examples chosen are therefore merely those which seem to illustrate our contentions.

The types of foreign ownership in Canada may for convenience be divided into four categories:

1. Companies which were founded as branches of Foreign corporations and in which there is no Canadian interest.

2. Companies in which Canadian held minority interest has been bought out by foreign parent companies.

3. Companies which were at one time wholly Canadian owned but which have been bought out by foreign interests.

4. Companies in which the equity is owned by foreign interests and for which substantial senior financing has been done in Canada.

COMPANIES WHICH WERE FOUNDED AS BRANCHES OF FOREIGN CORPORATIONS AND IN WHICH THERE IS NO CANADIAN INTEREST.

In the automotive field there are two very important producers, General Motors of Canada, Ltd.,





and Chrysler Corporation of Canada, Ltd. These companies have operated in this country for a period of more than 30 years but Canadians have not been given the opportunity to invest in them although these companies have flourished and have enjoyed the benefit of tariff protection.

In the newer field of radio industry in Canada there is only one company in which Canadians are able to make a common stock investment, namely Canadian Marconi. This Company accounts for only a small segment of the domestic radio industry. Many other names in the radio manufacturing industry are well known to Canadian consumers, including R.C.A. Victor, General Electric, Westinghouse (refer Appendix B), Admiral, Sparten, Sylvania, Philips Radio and Motorola. In none of these companies, however, are Canadian investors able to participate directly as the equity interest is held by the American or European parent.

In the rubber industry the same situation exists. Canadians are able to invest in the common shares of the Goodyear Tire & Rubber Co. of Canada Limited, but not in those of other suppliers, such as Seiberling, Dunlop, Goodrich and General Tire.

In the consumer field, particularly in soft goods, foreign ownership is also prevalent. While the names of Lever Bros., Procter & Gamble and Colgate-Palmolive-Peet are well known to Canadian consumers, they have no significant interest to Canadian investors who cannot participate directly in the Canadian



operations of these companies.

In the food industry such names as General Mills, Campbell Soups, Swifts, Kelloggs, National Biscuit and Heinz are well known. In none of these companies, however, can Canadians participate in the equity of their Canadian branch operations.

In each of the above mentioned cases it is possible for Canadian investors to buy the shares of the foreign parent company. This has obvious disadvantages for Canadian investors. The Canadian company forms only a small portion of the parent company's over-all operations with the result that investment in the parent company's shares only gives a small and indirect interest in Canadian operations. Moreover and of greater importance to Canadian shareholders is the fact that dividends on foreign investments are subject to foreign withholding taxes which may range from 15 percent in the case of Treaty countries to 30 percent in the case of non-treaty countries, moreover the Canadian investors in foreign corporations must also forego the benefit of the 20 percent Canadian tax credit provision.

COMPANIES IN WHICH CANADIAN HELD MINORITY INTEREST HAS  
BEEN BOUGHT OUT BY FOREIGN PARENT COMPANIES

The past four years have witnessed the removal of securities of several important electronics companies from the Canadian security markets. In 1952 the Admiral Corporation, a United States company, made an offer to purchase all the shares of its subsidiary, Canadian Admiral Corp., Ltd., and now some 97 percent





of these shares are owned by the parent company. The Admiral Corporation is a flourishing electronics and radio concern. Its Canadian business is prosperous, and those Canadian investors who surrendered their shares have lost the opportunity of participating in its further growth.

In 1954 the General Electric Company of the United States made a similar offer to the shareholders of its Canadian subsidiary, Canadian General Electric Company, Limited, which has resulted in a further diminishing of the opportunity available to Canadians to invest in the electronics industry in Canada. In 1955 the Westinghouse Electric Corporation of the United States made a similar type of offer to the minority shareholders of the Canadian Westinghouse Company Limited.

In the view of the Association, these developments are the opposite of what should be happening. Their effect is to reduce former joint American-Canadian undertakings to the status of branch plants. The result is that the Canadian investment public has no alternative but to invest in the American parent companies if it wishes to participate in the electronics industry in Canada.

COMPANIES WHICH WERE AT ONE TIME LARGELY CANADIAN OWNED  
BUT WHICH HAVE BEEN BOUGHT OUT BY FOREIGN INTERESTS.

Our Association wishes to point out that a number of companies which were at one time wholly Canadian owned have been purchased by foreign interests either through a cash offer or by exchange of shares.



As a result, control has passed to foreign owners. Canadian Western Lumber Co. Ltd., was one such company in which an exchange offer by a non-associated American corporation resulted in a sharp reduction in the number of shares held by the Canadian public. In October 1950, A.C. Wickham (Canada) Ltd., a British controlled company, purchased control of Modern Tool Works Limited. In 1952, International Milling Company of the United States, purchased all the shares of St. Lawrence Flour Mills Company Limited. In September 1953, Koehring Company of Milwaukee purchased 99 percent of the outstanding stock <sup>of</sup> Waterous Limited. During the past twenty-four months, two independent western oil companies, namely Calvin Consolidated Oil & Gas Company, Limited and Western Leaseholds Limited largely have lost their significance as investment media for Canadians through acquisition of control by Canadian Petrofina Limited, a subsidiary of a Belgium corporation which owns 100 percent of the common stock. In 1955 Canada Machinery Corporation Limited was purchased by German interests, thus removing the securities of yet another Canadian company from the market.

COMPANIES IN WHICH THE EQUITY IS OWNED BY FOREIGN  
INTERESTS AND FOR WHICH SENIOR FINANCING HAS BEEN DONE  
IN CANADA

Companies which are examples of those which have directly or indirectly borrowed money through the sale of senior securities in the Canadian capital market but whose common shares are not available to Canadian investors are Avco of Canada Limited, Canadian Liquidair





Properties Limited, Odeon Limited, Sheraton Limited, Dunlop Tire & Rubber Goods Company Limited, Hudson's Bay Oil & Gas Company Limited and Canada Safeway Limited. In each of these companies foreign interests retained the equity and benefited from the use of borrowed Canadian capital which in time will be paid off out of profits earned in Canada. Such Canadian capital has, of course, no vote in the affairs of these companies.

Although the Association is in favour of seeing Canadian companies do their senior financing in Canada, it wishes to emphasize that the above development is not a healthy one for Canadians. In the case of foreign controlled companies, it would in fact prefer to see the equity sold to Canadians and the preferred classes of shares and funded obligations sold to foreign interests. Alternatively a more equitable proposition would be for foreign parents to share with Canadian investors in both the equity and debt financing of their Canadian companies.

In submitting these views, the Association wishes to state that it has no quarrel with Canadian-American partnership as evidenced by companies such as Imperial Oil Limited, Dupont of Canada Securities Limited, Canadian Industries Limited, McColl-Frontenac Oil Company Limited, Canadian Chemical and Cellulose, International Nickel, Goodyear Tire & Rubber Co. of Canada Limited, Ford Motor Company of Canada, Limited and Simpsons-Sears Limited. In such companies Canadian shareholders benefit from American partnership by reason of the contribution through research, technology and



availability of financial resources. Moreover, the Canadian shareholder receives the benefit of the Canadian 20 percent tax dividend credit and frequently has the advantage of a broader market for his shares. However, the Association submits that the trend away from such partnership has been detrimental to Canadian investors in that it has limited their opportunities to participate more fully in their country's growing industrial development.

There is a widely held view that Canada's post war expansion has been financed largely by foreign investors. In actual fact, Canadian capital has provided approximately 85 percent of the capital needs of the country in the years 1946 to 1954. During these years capital expenditures amounted to about \$36 billion. Of this amount foreign capital supplied some \$6 billion; in the interim, Canadian investments abroad increased about \$1.5 billion. In investing a total of some \$30 billion, Canadians supplied most of the needs for social capital in the country. Although foreign interests supplied about 15 percent of our capital needs in the post war period, their contribution was heavily concentrated in the industrial segment of the economy.

Canada's achievement in providing such a large proportion of her capital requirements nullifies any conception that the role of foreign capital in the financing of Canadian industrial development was necessitated by any lack of domestic capital.

The Association wishes to reiterate its position that it favours the participation of foreign





capital in the development of Canada. Consequently the above mentioned views are not to be construed as in any way meaning that it favours imposing obstacles to impede the entry of foreign capital into our country. The above examples enumerate a number of instances which in themselves are small enough when viewed against the background of Canada's commercial and industrial growth. In the aggregate, however, they build up a picture which suggests a narrowing rather than a widening of the partnership between Canadian and foreign capital.

I will leave the following paragraph because it deals with a matter which was taken up yesterday before the Commission in the withholding tax structure.

Another development which has had the result of diminishing the supply of Canadian investment stocks is the formation in Canada by U.S. citizens of a number of non-resident owned investment companies for the purpose of investing primarily in Canadian securities. The large volume of this type of investment financing, which commenced in mid-1954, absorbed some \$120 million of Canadian securities in a period of 12 months. These so-called capital accumulation funds are permitted to accumulate income and to capitalize it for U.S. tax purposes as permitted by the laws of that country. This offers American investors a tax sheltered investment in Canadian industries and places Canadian investors at a relative disadvantage to American investors in the purchase of Canadian stocks. The effect is to provide the American investor with a 100 percent dividend tax credit as far as the Canadian tax laws are concerned,



against a 20 percent tax credit generally enjoyed by Canadians.

I have to leave out the following paragraph because it also deals with the tax situation which was fully explained yesterday.

It has been stated above that foreign capital has played and should continue to play a large and helpful role in Canada's great development. In this connection it is the Association's contention that a larger proportion of our social capital requirements as distinct from industrial capital needs could come from foreign sources than has hitherto been the case. The investment of foreign capital in the bonds and debentures of our provinces and municipalities aids in the building of our highways, schools and hospitals. An extension of this kind of investment might free Canadian capital for equity investment in the development of our natural resources and industries. The Association feels that such a course in the long run would be in the best interest of the Canadian economy. The interest payments required on funded debt are definite as to amount, and over the long term would not likely become as heavy a drain upon our foreign exchange resources as would a growing amount of dividend payments.

The Association therefore recommends to the Commission that a full review of the Canadian withholding tax structure be undertaken for the purpose of ascertaining its effect upon the volume of investment opportunities available in our capital markets, in the hope that such a review will lead to an increase in the number and type





of Canadian business enterprises making their ownership securities available to Canadian investors.

#### Company Information

The second subject which the Association wishes to draw to the attention of the Commission concerns the quantitative and qualitative level of corporate information provided by Canadian companies in general. The Association feels that it is inconsistent to encourage wider ownership of Canadian securities without also encouraging more informative company reporting.

Appendix B of this brief provides a summary of the results of a survey carried out by the Association of the reporting habits of 175 representative Companies listed on the Toronto Stock Exchange. It tabulates the proportion of companies which give sales data in some detail and report to their shareholders on a semi-annual and/or quarterly basis. As may be seen, in 1954 only 22 percent of the companies surveyed issued quarterly reports. This is in sharp contrast with American practice. It should be noted that subject to special exceptions all companies listed on the New York Stock Exchange must make such reports. In 1954 only 48 percent of the Canadian companies surveyed by the Association provided sales figures in their reports, whereas this is almost a universal practice for American corporations.

In recent years many Canadian companies have materially improved the content of their annual reports, and in the view of the Association are to be commended for so doing. It would be to the advantage of shareholders and prospective shareholders of all



companies if such improvement were to become more universal, as has been the case in reports of most American companies.

In order that investors may be adequately informed about the affairs of the public companies in which their money is invested certain necessary information should be reported. It is our opinion that a Company's financial report should include the following information:

Balance Sheet

1. Complete consolidation with subsidiaries.
2. Full description of basis of inventory valuations.
3. The basis of depreciation.
4. Commitments under lease arrangements.

Earnings Statements

1. Consolidation of Earnings of subsidiary companies.
2. Sales and cost of sales data.
3. Sales and profit contribution of division of operations separately stated.
4. Contribution of subsidiaries to earnings of holding companies individually stated.
5. Method of computing tax reserves.

It has been the custom in the United States to provide shareholders with certain quantitative data with respect to the physical operation of a company. It is for instance quite common to indicate in the case of an oil company the number of barrels refined, and the number of barrels produced. In addition many other





similar statements are offered which are very helpful to shareholders.

The frequency of reporting is, of course, of fundamental importance. Quarterly reports should be provided where possible. It is encouraging to note that a growing number of Canadian companies do provide substantially the type of information indicated above and follow the desirable practice of issuing quarterly reports. Despite this favourable trend, however, the Association notes that there are many companies in Canada which reveal little more than is required by statute.

THE CHAIRMAN: May I interrupt there a moment? Would the new Ontario Company's Act produce most of the things that you think is necessary?

MR. ANDREAE: I think the new Ontario Company's Act would be an improvement over the old one.

THE CHAIRMAN: That was not my question. I am sure it is an improvement over the old one. But perhaps you are not sufficiently familiar with it.

MR. ANDREAE: I am not, but perhaps Mr. Armstrong is.

MR. ARMSTRONG: No, I would say the proof of the pudding is in the eating. We will just see what comes of it.

THE CHAIRMAN: Well, you can read it -- at least when it is produced.

MR. ARMSTRONG: Well, we will see it as it is produced.

THE CHAIRMAN: Well, the Act is not in force yet.



MR. ARMSTRONG: No. We will see how it works out.

MR. ANDREAE: Brevity in this matter can never be a virtue.

There are a few stereotyped answers usually given in reply to requests for more adequate information. For instance, it is frequently said that the seasonal nature of the business precludes quarterly reporting. Of Canada's six major brewing companies, only one provides quarterly reports, although presumably all are equally subject to seasonal influences. Again it is sometimes stated that the industry in which a company is engaged is too cyclical to allow quarterly reports. One Canadian steel company provides its shareholders with such reports, but 32 American steel companies do.

The same objections are also encountered in the matter of providing sales figures or figures relative to the volume of business being handled. In some cases it is said that this type of information might be helpful to competitors. However, it is frequently the case that competitors are in a far better position to assess a company's position than are its shareholders. Sometimes objections to more complete disclosure are based on management's fear of parting with information that may in some way assist labour in its claims for higher wages and better working conditions. Here again the Association believes that the representative labour negotiator knows the details of a company's operations far more intimately than the average shareholder.





THE CHAIRMAN: Some of the labour representatives who have appeared before us said that they were not able to know. They didn't disagree with your view that some things should be made available.

MR. ANDREAE: A cynical suggestion which is sometimes offered when minority shareholders complain of lack of information is that those who have little faith in the management are always free to sell their shares. We do not believe that this is an adequate solution to sound company-shareholder relationships. Since U.S. experience seems to contradict most of the objections to greater disclosure of corporate information we cannot give them too much credence.

In the United States a critical investment public was largely responsible for demanding a higher level of corporate reporting than that which prevailed in the 1920's prior to the development of present sound financial and stockholder relations as practised by most American companies.

If I may, I will now skip down to the third paragraph.

We believe that enlightened and spontaneous management policy has also had a marked effect on financial reporting in that country. The Association, therefore, wishes to go on record as favouring the highest level of voluntary practice on the part of Canadian companies in reporting to their shareholders.

In stating these opinions the Association wishes to record with the Commission its view that a more informed public body of investors will in the long



run bring about a more stable market for securities. Where uncertainty is greatest, there is the greatest opportunity for wide fluctuations in the prices of securities. Such wide fluctuations are disconcerting to the small investor who feels himself at a disadvantage to larger and better informed investors. The Association believes that the confidence of the small investor is important to Canada's capital market and that the dissemination of fuller corporate information will foster such confidence.

If I may skip down to the last paragraph on this page.

As distinct from speculative risk money there are considerable funds in Canada seeking investment outlets. We believe that such funds will grow over the years so that every opportunity to extend outlets for investment capital in Canada should be welcomed. We believe that the presently existing 20 percent tax credit upon dividends from Canadian corporations has a very beneficial effect through encouraging investment in Canadian dividend paying equity securities, further progress toward elimination of double taxation would be highly beneficial to national welfare. Despite the fact that this dividend credit has existed for three years, Canadian security investments in foreign markets are still growing. This indicates an availability of Canadian capital for which a suitable outlet cannot be found at home.

In closing the Association wishes to state that in its view, the flow of investment funds is quite





definitely influenced by the two aspects which we have discussed. We believe that the Canadian investor is willing and able to provide more capital for Canada's growth. Such willingness should be deserving of full corporate disclosure and frank financial reporting. Finally the Association believes that certain adjustments in the withholding tax structure would provide a climate more conducive to the sharing of ownership of Canadian enterprises by domestic and foreign capital.

Respectfully submitted, Security Analysts' Association of Toronto.

MR. ARMSTRONG: Referring to your question wouldn't that refer only to Ontario chartered companies?

THE CHAIRMAN: Yes.

MR. ARMSTRONG: And they are very much in the minority.

THE CHAIRMAN: Quite.

MR. ARMSTRONG: It just occurred to me along the same lines, it seems to me as you know at the beginning of last year the Dominion Bureau of Statistics commenced releasing quarterly figures as to industry earnings and it refers, as far as I can gather, to all companies. It seems to me if the companies could make such figures available to the Dominion Bureau of Statistics and the Dominion Bureau of Statistics could compile an industry breakdown as to various industries, about 20 or 25 industries, I don't see why the same information couldn't be made available to the shareholders. After all, they have it and if they could give it to the Dominion Bureau



of Statistics why couldn't they give it to their shareholders? Pardon me for interrupting.

MR. GRAUER: Has the Association ever mentioned what the period of time is over which the public should be informed? What is the magic of three months. Who started it or why?

MR. ARMSTRONG: It is a custom which has arisen in the United States. We are selling securities and issuing securities and that is one of our main obstacles.

MR. GRAUER: Has any study of it been made as to what is the period of time for informing the public?

MR. ANDREAE: I think the public should be informed from day to day. This is not a very good way of conducting affairs and I think the quarterly period is a compromise. It is the shortest time practicable to report on.

MR. GRAUER: Why is it?

MR. ANDREAE: Let us say it is the shortest period that has so far been seen to date and maybe it will be shorter than that. Some people report on an annual basis.

MR. GRAUER: Most companies get out a monthly account.

MR. ARMSTRONG: Don't you think seasonally we have four seasons of the year and there are seasonal periods in the work in many industries and we are thinking if you break it down it would be a way of breaking it down to what it actually is?





MR. GRAUER: The report would show that you were probably misleading the public if you didn't give it quarterly.

MR. ARMSTRONG: Not if your comparison is with a comparable period for the previous year and you indicated the seasonal things.

MR. ANDREAE: Of course, Mr. Grauer, you also find not a few companies who are late in reporting their annual report -- three or four or five days late. Some even exceed statutory limit.

MR. GRAUER: I was just wondering how much consideration had been given to this period in which the public should be informed.

MR. ANDREAE: It is a compromise, sir.

THE CHAIRMAN: Mr. Andreae, there are three other matters on which I think you would be prepared to express views. Would you like to just proceed with it?

MR. ARMSTRONG: Well, Mr. Chairman, Mr. Andreae and his committee, along with Mr. Chadsey were mainly responsible for preparing the brief and my work on it has been very limited except to the extent of reviewing it and expressing my approval of it. There were a few points on which I felt I would like to expand slightly on the brief.

THE CHAIRMAN: There were a couple of shots that I wanted to throw in the dark. Point one refers to the statement, your emphasizing or pointing up the scarcity of Canadian equities for investment.

MR. ARMSTRONG: The firm with which I am associated has been working on the preparation of a



Canadian stock index for about two years and this is quite a major job and in connection with it we have been studying various industry groups and breakdowns, market valuations and yields and this is not submitted as a part of the brief, but I mention it and I have a copy here which I think is available for the members of the Commission. I would point out that the index is on 74 composite stocks, these being the 74 largest companies operating in Canada including Algoma Steel Company, Atlas Steel Company, British American Oil, then we come down to golds, such as Kerr-Addison Gold Mines, McIntyre Mines, then telephones, British Columbia Telephone, etcetera, and we find the following picture in respect of yields. Yields of Canadian utilities have declined from 5.68 percent in 1951 to 3.16 percent in 1955.

Yields in 40 industrial stocks, the names of which you may have have declined from 3.60 in 1951 to 2.98 percent at the end of 1955.

Yields in pulp and paper stock have declined from 4.88 percent in 1951 to 3.42 percent in 1955.

Mining from 5.68 percent in 1951 to 4.27 percent in 1955. Golds - 2.82 percent in 1951 to 3.38 percent in 1955. And the composite of the 74 stocks paid as a yield of 1/100ths of 1 percent above 15-year Canadian government bonds.

The securities of this group had a market valuation at the end of 1955 of \$12,202,011,000, and they paid dividends last year of \$405,895,000.





Now, what I am endeavouring to point up here is the scarcity of available equity investment for the Canadian investor which is brought about by the various causes which Mr. Andreae has pointed out. First, the fact that we cannot participate in many American companies in their Canadian subsidiaries. There are heavy purchases of Canadian securities by American investors, etcetera.

Now, I point out in contrast that today the yield on a comparable index of 90 stocks of the Telephone and Power Industry which comprises more than 80 percent of the bulk of the stocks listed on the New York Stock Exchange have shown a decline from 5.51 percent to 4.71 percent, industry 5.98 percent to 4.06 percent, wheat down to 2.98 percent, railroads 6.30 percent; the industrial composite is down from 6 percent to 4.17 percent. There is still 71/100ths of 1 percent higher yield than we are and yet their intermediate yield on their interim bonds which would be comparable to our 15 year, would be 15.3 percent.

Inasmuch as we are working with this standard index, I think it is representative and I point it up as, shall we say, the yield of Canadian securities for various classes and it has been dropped to a very low level. Opportunity for equity investment must be made available to Canadian investors in my opinion.

THE CHAIRMAN: I think if you just read the other two.

MR. ARMSTRONG: In this respect I go out



on a limb. I disassociate my views from those of the Security Analysts. This is an opinion. It would seem to me in this report we talk about the threatening incentive of risk capital and much is talked about but no one ever does anything about it. It is like Mark Twain says about the weather, everyone talks about it but nobody does anything about it.

A feature which is very disturbing is the new Canadian mine or petroleum or lumber company which shows promise of becoming a successful venture. Control is gradually acquired by foreign investors through open market purchases. This has occurred with many Canadian companies in recent years. I would cite the following as situations where open market purchases by American investors are currently substantial -- MacMillan, B.C. Forest Products, Cassiar Asbestos, United Asbestos, Bailey Selburn, Royalite, Calgary & Edmonton, Canadian Devonian, Gunnar, Consolidated Denison, Labrador, etc. Recently a Calgary broker tried an experiment to see how much stock was still available in six of the leading Alberta so-called independent oil companies. He bid one-quarter of a point above the market on the Calgary Stock Exchange for an entire day for stocks in this group without acquiring a single share. The inference is that most of the local stock had been sold.

Having in mind the interest that new mining companies attach to their three year tax-free period, it has occurred to me that a similar tax-free period might encourage Canadian stockholders to risk their capital and then if successful to retain their





shares in a new mining or oil venture -- or for that matter a wider range of industry if desired. I would specify that for a five year period the tax on dividends received from such companies should be nil or in any case not in excess of 15 percent -- the amount of the withholding tax that would be collected from non-residents if such shares should pass into foreign ownership. To be eligible I would require that the shareholder must own his stock before the company commenced production and that he must be a resident of Canada. I would place no restriction on ~~the~~ period of time within which dividends must commence since in many instances it would be advantageous to plough back earnings. I would require that dividends once commenced must be continuous and that they must be paid out of current earnings. It would seem to me that such a policy would not only prove a powerful incentive to Canadian venture capital but at the same time it would encourage Canadian investors to hold their shares in new mining and petroleum ventures. As far as I can see, it would cost the Canadian Government very little in the way of taxes over the near term and over the long pull the Government would probably actually collect more. At the same time it would assist in preserving Canadian ownership of our natural resources. Conceivably, a group of Canadian investors might borrow money in the U.S. and put up their own equity capital to develop a semi-proven Canadian mineral or petroleum deposit.

The third item is in this regard; it refers to what I might term as marketing assistance.



A field in which the Canadian government might assist industry and investors in Canada is in regard to the marketing of our natural resources. By holding out the threat of shutting off purchases or diverting orders to other suppliers American companies can frequently drive a hard bargain with Canadian suppliers. For instance, B.C.Forest Products this summer found difficulty in financing a new pulp mill so Scott Tissue contracted for a million shares and promised to buy its pulp output immediately B.C.Forest Products became a gilt-edged credit risk and placed \$25 million of debentures largely with U.S. financial institutions. Similarly Gypsum Lime & Alabastine this summer had a bid from National Gypsum reportedly on the basis that if the bid was not accepted, National Gypsum would build competing plants. Alaska Pine & Cellulose had difficulty selling its dissolving pulp so Rayonier acquired control. Westcoast Transmission agreed to deliver gas 800 miles distant on the boundary of the State of Washington for a price of 22 cents a thousand although well head prices in Louisiana are 18 cents a thousand. The Federal and the Provincial Governments should see that Canadian natural resources are marketed in an orderly fashion and at a fair price. If Canadian investors were assured that they are not going to be whipsawed they would tend to hold on to their investments in natural resource companies. It would seem that in the interests of the national economy it is more important to see that we obtain an adequate export price for our newsprint, asbestos, iron ore, natural gas, nickel,





aluminum, gypsum, barytes, etc., than that the domestic price be depressed. In all of these situations the export market is or shortly will be much more important than the domestic market.

THE CHAIRMAN: Thank you very much. I would not like anything I said earlier on to be interpreted that I am not in favour of information being given to the shareholders. We are very grateful to you. I suppose while you are here we should ask you whether the market is going to go up or down in the next few weeks but perhaps we should come and ask you that privately. Thank you very much.

The next statement which we will mark Exhibit 173 is from the Canadian Importers and Traders Association Incorporated.

MR. COWAN: Thank you, Mr. Chairman. First I would like to say that it is indeed a privilege for the Canadian Importers and Traders Association to present this brief to the Royal Commission on Canada's Economic prospects.

1. The Canadian Importers and Traders Association is the national trade association in Canada of those engaged in the import trade, either directly as importers or indirectly through the servicing and financing of imports. There are four hundred members located from Halifax to Vancouver with the greatest concentration in Toronto and Montreal.

2. It is said that Canada now has the largest per capita foreign trade of any of the world's important trading nations. At the same time we enjoy



the most prosperous times in our history. Historically the country has prospered best in times when our international trade has been most active.

3. The importance of international trade in our prosperity seems likely to increase rather than decrease. International trade is considered as being made up of exports and imports and it is generally accepted that trade is a two way street and that imports pay for exports and vice versa.

4. Canada now and in the foreseeable future is a country which produces much which must be sold abroad, and, if we are to sell abroad, we must buy from abroad.

5. While it is true that the increased population, which we may confidently expect, will consume more of our national production, it is also true that this increased population will produce more than it consumes. It is also fair to assume that more sources of natural products will be discovered as well as better means of making use of them. Therefore, it must be presumed that it will be essential for Canada to continue to be a large exporting nation.

6. Undoubtedly in the future our surplus of products and commodities which cannot be consumed at home, and therefore must be exported, will be of a different nature than at present, but it is reasonable to assume that this surplus for export will be of even more significance than in the present day.

7. Our exports are principally raw materials or semi-finished products for which the market





has necessarily been found in industrialized countries. Therefore, we have had to take payment in manufactured goods. In view of the expected development of natural resources such as oil and minerals this situation will continue.

8. Canada will, therefore, continue to have an exportable surplus of raw and semi-finished products and, if we are to be paid for these, payment will necessarily continue to be in manufactured goods. This situation will continue to generate continuous pressure from Canadian industry for higher tariff protection.

9. Also the direction of our exports seems bound to change. For example, it is probable that our wheat will go more and more to Japan and the Orient and less and less to the United Kingdom and Continental Europe. Instead the day may come when our wheat and flour exports to Europe may be comparatively insignificant.

10. New discoveries of oil and minerals, new sources of hydro electric power, new sources of and uses for plastic products and the probability of economic atomic power all point toward our increasing labour force being employed in producing finished or semi-finished articles. It seems unlikely that agricultural land use can increase as much as industrial production based on other natural resources and it is therefore fair to assume that it will become increasingly necessary to our economy that we export more finished and semi-finished products.



11. Since we must continue to export it is equally essential that we continue to import since trade must flow both ways.

12. Traditionally imports progress from importation through sales agents to stocks carried by Canadian importers, then to assembly of parts here and finally to manufacture in Canada, and undoubtedly many products now appearing in our import statistics will, in the future, become domestic manufactures. Manufacturers are, in many cases, large importers, nearly 25 per cent (24.4) of our imports in 1954 being made up of primary and semi-finished products. Consequently manufacturers favour the freest possible trade in the items which they themselves import, although their views on the importation of other items may be very different.

13. Nevertheless we can see no lessening in demand by the Canadian public for imported goods although the type of goods demanded will no doubt change and also the countries which now are the sources of supply will change.

14. We believe that, in addition to balancing export trade, imports improve the Canadian standard of living by making available goods and products which are not produced in Canada. It is also true that imports help to reduce the cost of living since the competition of foreign produced items resists any tendency on the part of domestic producers to unduly increase prices. We know that imports create work for a great many Canadians, not only those directly engaged in the import business but those engaged in all forms





of transportation, plus those engaged in such service industries as banking, customs brokerage, forwarding agencies, advertising and many other forms of endeavour. With the easier and faster methods of travel now available more importers are visiting foreign countries and more foreign businessmen are visiting Canada which undoubtedly helps to improve international relations. Imports of raw and semi-finished materials are essential to Canadian manufacturers and there are many products, of which citrus fruits, coffee and tea are examples, which cannot be produced in Canada. Undoubtedly the revenue provided by customs duties, excise and sales tax on imported articles is a significant factor in Government revenue.

15. A factor affecting the demand for imports in Canada is the "New Canadian" population. Prior to 1939 a large proportion of the immigrants were of the labouring or peasant class but since that time the influx has been principally of the skilled worker, professional or business man and many of these people, having at one time been accustomed to a comparatively high standard of living, seek those products to which they were accustomed in their former life and this has created a demand for many new types of imports. Very often native Canadians find that these imports are acceptable to them and this further increases the demand. For example, the demand for Danish Blue cheese has increased to such an extent that imports are constantly increasing and attempts are being made to produce a



similar Canadian product.

16. We are quite certain that there will be an increasing demand for imported goods which will help to balance the increasing national product which will have to be exported.

17. We are aware that there is a constant pressure being maintained on the Canadian Government for higher tariff protection and, while we do not advocate free trade, we feel that Canada's present foreign trade policy has produced prosperity for the present and that the same fundamental policy adjusted to changing international conditions is in the best interests of our country in the future and therefore the pressure for increased protection should be resisted. Canada has been a subscribing member to the General Agreements on Tariffs and Trade and the principle underlying these Agreements of reducing international barriers to trade is in our opinion sound. Until something better is found to take the place of these agreements we advocate Canada's continuing its support of them. Dominion Bureau of Statistics figures show that for 1953 (the latest figure available) the average ad valorem rate of duty paid on dutiable imports was over 18 percent and the overall average, including both dutiable and free entry items, was over 10 percent. Surely this provides ample protection.

18. This pressure for increased protection takes two forms. First, there is the direct approach in which a higher rate of duty is requested, and second, there is the indirect approach which hopes





to increase the difficulty or cost of importing goods without increasing the rate of duty shown in the customs tariff. Attached is a letter which will serve as an example of indirect or hidden tariff protection. Other examples can be furnished.

19. It is pointed out that regulations such as sizing standards, labelling requirements, and other such requirements are in fact hidden protection because they make it very difficult to bring in mass produced items for the Canadian market whose requirements may represent only a small proportion of the total production.

20. Because it lends itself to spectacular headlines a great deal is published about imports, particularly textiles, from Japan and India, but the impact of such imports on the Canadian economy, when examined against the totals of our foreign trade, will be found so small as to be relatively insignificant. For example, all the textiles imported from Japan in 1954 no more than balance the export of rye whiskey from Canada to Japan,...

THE CHAIRMAN: Who is suggesting that textiles are not of as great importance as rye whiskey?

MR. OAKELY: I would suggest, Mr. Chairman, that we do not have to balance similar goods or even goods of the same category. After all, what we are trying to do is balance accounts.

MR. COWAN: ....to say nothing of other Canadian exports to that country which give Canada, by latest available figures, an export versus import figure



of five to one.

21. Undoubtedly a problem in Canada's foreign trade policy is our dependence on the U.S. market for both imports and exports. Canada is the United States' largest foreign customer and the United States is decidedly the largest foreign customer for Canadian production. We feel that because of geography and the very similar standards of living in the two countries that this will always be the case. Nevertheless we feel that every effort should be made through Government policy to increase both our exports and imports to countries other than the U.S. in order that we may continue to preserve our independence and national status.

22. In connection with Canadian imports from the U.S. it is important to note that the demand for U.S. goods is created principally by reason other than price. That is to say, style, quality, change in design, suitability to Canadian way of living and wide selection of goods are the main reasons for the ready acceptance by Canadians of American articles. The fact is that the U.S. can produce for the sophisticated Canadian taste things for which the small population of Canada would not support a domestic manufacturing run. Price is NOT of prime importance in many of these products.

23. To sum up, we believe that the future economic prosperity of Canada depends on the freest possible international trade and that future Canadian Governments must resist pressure for higher tariff protection, be it direct or indirect.





We have, Mr. Chairman, appended a letter which shows ----

THE CHAIRMAN: I don't think you need read the letter. I think if you attach importance to it it is a matter of something which you could take up with the Customs Department.

MR. COWAN: We thought that was important so we appended it, but it does not necessarily have to be read.

MR. GUSHUE: I would like to ask one question if I may. You sum up by saying:

".....we believe that the future economic prosperity of Canada depends on the freest possible international trade and that future Canadian governments must resist pressure for higher tariff protection ..."

A little before that in paragraph 21 where you say in dealing with the trade of Canada and the United States, you say:

"Nevertheless we feel that every effort should be made through Government policy to increase both our exports and our imports to countries other than the United States."

How would you explain those two? Do they clash in any way?

MR. COWAN: At the present time, of course, Canada imports a great deal more from the United States than we sell to them and we do know that the Canadian Government is doing everything possible to get the United States to ease their import tariffs and in certain



cases customs procedure so that our exporter can sell more in the United States, but in the case of practically every other country in the world, our exports are higher than our imports and for that reason we would like to see imports from these other countries higher to balance our trade with those countries.

MR. GUSHUE: I was wondering if the reference to Government policy there had any particular meaning or any direction you wanted to suggest?

MR. COWAN: Not specifically, sir.

MR. GUSHUE: "Every effort should be made through Government policy" and I was wondering what the significance of that was.

MR. MACKENDRICK: I think it is a matter of not having too many eggs in one basket.

MR. GUSHUE: I was thinking of those words "through Government Policy". What sort of government policy?

MR. MACKENDRICK: The policy which is being pursued in part now through our Department of Trade and Commerce in endeavouring to enlarge our trade with countries other than the United States to sell our goods. Exporters are being encouraged to seek other markets than those now existing and that sort of policy, encouraging a diversification of the production so it is not to be all dependent on one country's prosperity. We are not suggesting any specific policy which the government should follow but suggesting that they should follow the policy of diversification of production of both our exports and





imports.

MR. GUSHUE: You don't necessarily mean tariff policy?

MR. MACKENDRICK: Not necessarily, no, but that might very well be one of the levers which could be used.

MR. OAKLEY: If I may add something to that, we do say in paragraph 14 of this submission that we do recommend that the principles of GATT be supported and adhered to as Canada has been supporting them at least until something else is found to take its place. Now, it is possible that in the near future because GATT runs out in December, 1957, I think it is, that we may have to find something to take the place of GATT. Unless we do find something we might find ourselves back in the chaotic period as far as international trade is concerned as we found ourselves in in the '30's.

We have been giving quite a lot of thought to a programme that could very well be adopted which would be designed to reconcile the conflicting interests that have already been brought to your attention between the primary industry and the secondary industries in this country. We think that it is quite possible to develop a graduated reciprocal tariff which is related to the average hourly wage rates in the different trading countries which would have the effect of doing what we all want to do, that is, increasing our trade and at the same time imposing no penalty other than the equalizing influence that such a tariff



would bring about between the secondary industry and the people with whom they may find themselves in competition.

We have not submitted our programme to you on this plan. We don't know how far you want to go on this, but all we are suggesting here is that we do think GATT has a lot to recommend it, that we have benefitted by the provisions of it as already set up and we don't want to see it thrown overboard unless we have got something else that may be equally beneficial or more beneficial.

MR. GUSHUE: You would prefer the multi-lateral to the bi-lateral approach, I take it?

MR. OAKELY: Oh, definitely.

THE CHAIRMAN: Thank you very much, gentlemen.

--- Recess

--- After recess

THE CHAIRMAN: Would you like to come to order, gentlemen, please?

MR. PRESTON: I have the privilege of representing as its president, the Canadian Transit Association and when this opportunity to assist the Commission presented itself we decided that it would be preferable if you had one submission from the transit industry in Canada rather than several briefs from widely scattered cities. To accomplish this, it was no small task to gain unanimous thinking on the part of all our members so we sought and obtained the services of a gentleman who has long been





associated with transit on the North American continent. He has been, since its inception, the general counsel of the Toronto Transit Commission which is one of our largest transit systems in the country. Mr. Fairty is a lawyer by profession and past-president of the County of York Law Society and he is also past-president of our Canadian Transit Association and has for many years prior to that been on the executive of the association. He has also held executive positions with the American Transit Association; and I mention this merely to emphasize his experience in our industry, and I know you don't want to hear any further comments from me. I would be glad to turn it over to Mr. Fairty, Q.C.

MR. FAIRTY: Thank you, Mr. President. I couldn't have <sup>kinder</sup> words in an obituary.

THE CHAIRMAN: It is some time since you and I met up in a transit enquiry. We will mark this exhibit 174 in the record.

MR. FAIRTY: To identify the Association, it may be said that it includes in its membership all local passenger transportation agencies in Canada of any importance. Most of such agencies are today publicly owned, but whether public or private, their problems are almost completely similar and each deserves similar recognition as essential public utilities.

The Association was formed in 1904 and had as its purpose mutual aid through the exchange of experience and ideas and by means of united representations to public bodies whenever necessary or desirable. In view of the obvious fact that there is and can be no



competition between its members, the attainment of its objectives was more easily come to than in the case of some other national associations. In passing, too, it may be said that no constitutional problems confront its members, all being solely subject to provincial jurisdiction.

The Association has flourished, maintains an adequate staff for the aid of its members and, by this means and by means of largely attended annual and regional committee meetings, has unquestionably gone far towards the attainment of its founding purposes. The investment in plant and equipment of its members shows a book value of \$254,168,867, an amount definitely below its present value, and a combined gross revenue in 1954 of \$112,581,476.. In the same year 1954, its members carried 1,160,016,368 revenue passengers, despite the fact that there has been a decline in riding from the peak year of 1949 when 1,351,005,147 passengers were carried. The number of vehicles operated by its members is in excess of 6,500.

The Association understands that, by the terms of the Commission's assignment as interpreted by public statements, the Commission's function is to survey the past, present and future of Canada's economic life and to report its conclusions as to its present position, its probable and its desirable trends, but that it is not asked to make specific or detailed recommendations as to the same. This being so, the Association's purpose in this submission is not to ask for relief of any kind, but simply to outline in a brief





manner its thoughts as to the past, present and future of this public utility. The Commission has been kind enough to intimate that such a submission would be welcome, and it is submitted in the hope that it may be, to some extent at least, helpful to the Commission in its deliberations.

It would be quite easy to submit a voluminous statement of the industry's position and to fortify it with equally voluminous statistics. The Association, however, feels that the Commission might find it more useful if the Association confined itself to a brief, concise statement of the position of this utility, in the past, in the present and, as it can see it, in the future, and did not weary the Commission with a mass of detail. This attitude may lead to an appearance of dogmatism but such an attitude is, of course, not intended, and the Association will stand ready to supplement its submission with supplementary detail, if such be desired.

That the growth, character and development of our urban communities has been almost wholly premised upon local transportation is manifest.

Up to the last decade of the nineteenth century, local transportation was confined chiefly to horse-drawn vehicles and pedestrianism. The high bicycle did not lend itself to pre-asphalt roads and suburban steam railroad service was negligible. This resulted in highly compact communities whose problems were relatively simple and their solutions equally apparent. One less happy result of tightly built up



areas was the fostering of conditions conducive to slums.

The advent of the electric trolley car about 1890 very substantially increased the possible perimeter of our cities. This was aided by the contemporaneous appearance of asphalt pavements and the safety bicycle, (I imagine I am the only one that can remember that) and it is interesting to remember how avidly old and young in those days took to "wheeling". Nevertheless, for some three decades the trolley car was to all the fast, convenient and comfortable king of the urban highway and indeed extended its realm into the interurban work.

That the electric car substantially extended the boundaries of our larger communities and cultivated a taste for what was then regarded as "suburban" living there can be little doubt. Nevertheless, though municipal problems increased in volume, the development was an orderly one and their solutions still remained relatively simple and obvious.

Then came the "horseless carriage". The somewhat uncertain, pioneer vehicles gradually increased in reliability and popularity and, what was first a trickle of motor cars, became a stream and then a torrent. The end is not yet. It has been estimated by reliable observers that, in another decade, there will be from 25 to 35 percent more automobiles on the road than there are today.

It would be superfluous to make any detailed comments upon the obvious results of the





turn to automobile travel. There has been a complete change in the living and travel habits of everyone on this continent. The effect upon our industry will be stated later but it is only an illustration of its effect upon urban social and economic life. The problems created are not local -- they are nation-wide, but even this plain fact is not universally recognized. The consequences of the flight to the suburbs, which the motor car has brought about, are equally serious to the city which has been left and to the suburbs which have received an influx that is proving indigestible. The cost of downtown congestion to our business interests is incalculable.

There is small need to emphasize the traffic congestion or the traffic problems which our communities face. It is plain to any observer. The economic, social and political results are sometimes not equally transparent and a failure to recognize them may be a reason, if not an excuse, for some civic inertia.

A recent bulletin issued by the Pittsburg Chamber of Commerce states the problem, as business leaders see it so succinctly, and no apology is offered for its reproduction here:

"The overall-problem of traffic congested Pittsburg, California, is no different than that of traffic congested Pittsburgh, Pennsylvania. Only the estimates differ as to how damaging it is in terms of accidents, extra gasoline burned, wear



"and tear on car and driver.

Little Providence, R.I. estimates the annual cost of its traffic mess at \$50 million annually, while New York places its costs at \$1 billion a year, almost two-thirds of its total city budget.

But there is little disparity between cities as to who foots the bill for traffic congestion. The ordinary citizen pays the higher costs of operation of the family car and higher prices for goods and services. A traffic study in Los Angeles showed that as few as five stops a mile reduced the gasoline mileage of the average car from 22.7 to 13.6 miles per gallon.

The businessman suffers because customers have difficulty reaching his store and cannot park once they get there. Congestion hampers the industrialist's production schedules and raises the cost of transporting his products.

The property owner suffers because real estate values are lowered. And to city officials, traffic congestion means loss of tax revenue because of the flight to the suburbs, urban blight and decreased business in downtown stores."

A large percentage of all municipal revenues comes from the downtown central areas. If such areas are allowed to deteriorate, the effect on civic credit and progress is bound to be damaging. And any trend





which seriously threatens civic assessments and, therefore, revenues, is plainly more menacing today than ever before because of the political repercussions which would inevitably accompany any forced reductions in social services and benefits. Communities are forced to recognize the profound change in the living and travel habits created by the motor car and to adjust their policies accordingly. It is more dangerous to stand still than to go ahead.

Probably urban transit has been more vulnerable to changed public habits than any other public utility. The major factor in such change has been the increase in the use of the private motor car, but there are others.

Saturdays and Sundays at one time were days of peak patronage. The five-day week has meant meagre traffic on these days. Radio and television have seriously affected evening riding and the development of community centres restricts downtown travel. All these factors have diminished off-peak and short-haul rides and left the transit property with the bulk of its revenue to be derived from long-haul, rush-hour traffic. As this demands increased personnel for relatively short periods, who must be paid nevertheless for an eight-hour guaranteed day, it is not difficult to see the financial burden thereby imposed. To these unavoidable handicaps must be added the demand that transit services be extended to cover greatly increased areas, whether within the municipal limits or not, and whether or not such extensions can be made to carry



themselves either at the present time or in the foreseeable future.

But, of course, transit's chief problem is the competition from the private motor car. It is a competition which does not arise from any economic considerations. There is no use telling an average motorist that 20 percent of his family income goes into the purchase and upkeep of his car or that it costs him 10 cents a mile to travel 8 or 10 miles when he could ride in a public conveyance for from 10 to 20 cents. His answer is that this is a free country and he will do as he pleases.

There is no denying that personal automobile travel is, generally, more comfortable and flexible than travel by transit. Above all it is usually speedier and the main public demand today is for speed, and more speed. If transit could furnish speed, there would be a marked lessening in the use of motor cars, as Toronto's subway has abundantly proven.

But the irony of it all is that the private motor car, which diminishes transit patronage, is the chief factor which inhibits transit in its efforts to furnish anything like a competitive service. It is true that transit vehicles for passenger accommodation must stop at least six times a mile and that they have to adhere to fixed routes, even in the case of a temporary delay. But the motor car has to stop quite frequently for traffic lights and transit service could ordinarily be reasonably competitive were it not





for the blocking of its path by motor cars, parked or otherwise. It will be suggested later that public effort should be made to correct this situation.

In short, the transit industry finds itself caught in a vicious circle. Up to now most civic efforts to improve traffic conditions invite more motor vehicles to use the streets and augment transit's competition and its difficulties in meeting it. This means delayed service, disorganization of schedules and a more costly operation. This, in turn, breeds dissatisfaction among its passengers and a consequent loss of some of their vital patronage. So, in a desperate effort to make ends meet, management cuts service or raises fares, again with a resulting loss of passengers and revenue.

Certainly, everywhere on this continent, transit riding has decreased throughout the past decade due to the conditions it faces as above outlined. The quantum in the case of each property is largely dependent on local conditions.

At the same time, wages and fringe benefits have increased sharply, and, in this industry, about two-thirds of its costs are labour costs. That is just about it. 66 percent or something like that is the general percentage.

Simply by way of illustration, it may be pointed out that at the turn of the century the hourly wage of motormen in Toronto was about 20 cents for a seven day week and twelve hour day, with no guarantees. Today, by a recently concluded agreement, it will be



\$1.67 per hour with "fringes" costing 52 cents per hour -- a total cost of \$2.19 per hour.

In many industries, much of increased labour cost can be recovered by the introduction of some form of automation or by methods of increased production, but there is no such possibility available to transit.

And the establishment of increased fares not only brings into force the law of decreasing returns but usually incurs bitter public and political opposition. People who pay without murmur increases demanded in the price of any other commodity or service protest fare increases. Yet the fares of today are, compared with the universal 5 cent fare at the turn of the century, absurdly low having regard to our inflated currency. A 10 cent fare today would be equivalent to about 2 cents then or, to put it in reverse, the 5 cents of 1900 would represent close to 25 cents today. Yet no utility on the continent has yet tried to establish a 25 cent fare, although 20 cent fares obtain in some American cities. Canadian fares are all substantially lower. The average fare in the United States in the big cities is 15 cents.

Now, if this public utility was nearing the end of its useful public service, it would be right for it to bow out of the picture, as, for example, electric radials have done. But it never was more important and necessary than it is today and never has the appreciation of this fact been so widely accepted. Indeed most public authorities and students of public





affairs today regard public transit as the main feasible answer to today's traffic snarls.

Even under today's handicaps, transit transports -- this is in Canada -- from 50 to 80 percent of shoppers and workers to and from the downtown areas, the exact percentage depending on local conditions. Transit has proven indispensable in war or other national emergencies and, even in their absence, under certain weather and climatic conditions.

Not so long ago most communities thought the solutions to their traffic problems were simple and obvious, even if somewhat expensive. What could be plainer than the necessity for street widenings and extensions to solve the growing demand for street space? The results, however, were somewhat less than satisfactory, particularly when, as occurred not infrequently, the widened street became a storage yard for motor cars often because of the insistent, if short-sighted, clamor of local merchants.

Now the rage is for expressways or "freeways". This is a recent news item:

"Recommended to free up Detroit's traffic freeze are 11 new expressways totalling 200 miles. The new routes costing one billion dollars would be sufficient until 1980 at present projected rates of traffic growth."

I sometimes wonder what a billion is. It was 1902 before there were a billion minutes in the Christian era.



One would imagine that even a rich city like Detroit would think twice before committal to such a programme. In Los Angeles \$200 million was recently spent on far from slightly free-ways. An eminent transportation consultant, Mr. C. E. DeLeuw of Chicago, has publicly stated that their rush-hour capacity was exhausted the day after they were opened.

Indeed it may be categorically declared that no community of any size on this continent has up to now satisfactorily solved its traffic and parking problems. Freeways have their place in civic thinking but they are a very costly answer to the traffic problem and far from a complete one. In a paper read before this Association at its last annual meeting it was stated:

"Those who question the wisdom of costly freeways base their scepticism on the following among other grounds.

(a) Those most substantially benefitted by such freeways do not pay for them, at least as users, and many of those who pay do not receive any direct tangible benefit. Of itself this is not enough to condemn any public work but there is a great deal to be said for the declaration of the Urban Traffic Forum that price mechanism should ration street use."

Now, this Urban Traffic Forum was composed of architects, administration, civic planning, department stores, transportation and traffic so it was fairly representative.





"In all these matters it is suggested that the time has come to consider most carefully who benefits and who pays and who should pay. Much of our civic trouble arises from the prevalent habit of treating the private motor car as sacrosanct and disregarding the plain rights of citizens not fortunate enough to have two or more cars at their command."

It seems to me I heard representations of that sort before in the papers this week.

"(b) Freeways are primarily designed for the convenience of the most inefficient highway user, the private motor car. This is in direct rebellion against the considered judgment of every public body or authority which has given thought to the matter -- namely, that the problem is to move people, not vehicles. Some freeways actually forbid their use by transit vehicles, others make their use impossible by neglecting to make provision for them. If freeways are to be built they should be built in locations suitable to the use of both private and public transportation and adequate provision should be made for the latter. Ordinarily, such provision would not exceed 10 percent of the cost of the work and any such cost should be borne in the same manner and by the same shoulders as bear the general cost



"of the project."

Now then, in Chicago, the Congress Street expressway recently put through made provision for two lanes for rapid transit and it only cost them 5 percent more. Of course, local conditions will decide what the actual percentage will be in any given case.

"(c) It may be questioned if in designing and locating freeways thought is given to the adequacy of their terminal locations and to their relation to the city's business, commerce and real estate values. Ill-planned freeways create bottlenecks worse than those existing before their construction and few have completely solved the terminal and parking problems they themselves have created.

(d) Freeways encourage the use of the private car for urban transportation and are a standing invitation to motor car owners to bring into the central perimeter cars that should not be there at all. Once dumped there, their owners loudly demand parking space at less than cost, to them, of course, and the result is to destroy valuable building assets and assessments in the heart of a city simply to furnish motor storage. The effect of all this can be seen in any North American metropolitan community where building destruction resembles, to a greater or lesser extent,





"the bomb destruction wrought in European cities. Some carefully thought out freeways are of public advantage, but too often as Mr. Lewis Mumford says in a recent article, 'instead of curing congestion they widen chaos.'"

As specific evidence that responsible and informed civic leaders are giving transit a second look as an efficient and relatively cheap solution to traffic snarls we quote the following authorities. There would be no difficulty in multiplying such opinions:

"The Urban Traffic Forum, which represented all bodies in any way interested in traffic, 'Few large cities can solve their traffic and congestion problem without relying heavily on mass transportation rather than the private car.'"

Business Week - "There is fresh evidence to show that public transit is a much more important element than many thought a few years back."

Pittsburgh Chamber of Commerce, quoting the Director of Community Development -

"It is about time that all of us quit playing with mass transit as a 'poor country cousin' and regarded it as essential to the economic well-being of the community."

And a prominent realtor - "A swing to mass transit is a means of saving the goose



"that lays the golden egg -- the downtown merchants."

Wisconsin Governor's Commission

"It soon became apparent to the Commission that all interested parties agreed on one thing -- that public transit was a necessity in all communities represented at the meetings. It also became apparent to the Commission that there existed a vast amount of public indifference to and a misconception of the plight and problems of the transit industry."

Chicago Tribune -- "The best way to postpone banning private cars from the streets is to seek by every means to attract more riders to public transportation. One such means is to have a traffic system so designed that a bus carrying 50 persons is given preference over an automobile carrying one or two."

City Planner Harland Bartholomew

"It should be evident to all who are generally interested in the present as well as the future welfare of our cities that the streets of our business district be cleared for expeditious mass transportation flow regardless of whose individual interest are involved or whose toes are stepped upon. This is a matter of paramount public interest -- a matter of dominant public necessity."





Urban Land Institute ("The City Fights Back") - "Obscured by rows of cars backed up at the traffic light, downtown's most gleaming diamond has gone unnoticed in the streets. This diamond is mass transportation.

The cities have not only neglected the gem; they have with few exceptions, kicked it around the streets like an empty ash-can. Mass transportation is a necessity. Without it any city of any size would wither away."

Adlai Stevenson before the American Municipal Congress in December, 1955.

"With more and more people driving their own cars the use of urban transit systems has declined by more than half from the end of World War II. The increased number and use of private automobiles is creating more problems than it solves in obsolescent city streets that flow between narrow banks of ever taller buildings that cannot be pushed back. As we struggle to impose an automobile civilization on an elevated civilization we note painfully that the further and faster we grow in a vertical direction the slower we move horizontally. As traffic congestion keeps shoppers from the central business district, commerce and industry follow their customers and employees and city governments have fewer taxables to provide necessary services."



Now, I see by the paper (this brief was prepared some weeks ago) that there has been some local endorsement of our gospel. Well, like Billy Graham, we welcome anybody to the penitent's bench.

THE CHAIRMAN: It was not unanimous, though.

MR. FAIRTY: Well, I was not here.

It will be seen from this outline that, despite its admitted value to the communities in which it operates, the economic position of transit is deteriorating everywhere and, if no public co-operation of value is forthcoming, its position may, in the not too distant future, become desperate. This Association believes this result is both unnecessary and to be deplored, and that it should voice its opinions as to the methods of preventing it.

The ideal for large communities would be rapid transit, in the technical sense of the term, i.e., by completely separate non-surface rights of way. The cost, however, of these public works makes this solution only feasible in two Canadian cities, Montreal and Toronto. Toronto's subway, while only 4-3/4 miles long, has fully justified the hopes placed in it and both of these cities are canvassing the possibilities of more of such public works. It is to be hoped that each city will have in mind that rapid transit builds and restores values and assessments in the downtown area and along its routes, and that the operational savings are substantial enough to amortize a not inconsiderable part of the investment.





It should also be borne in mind that the cost of a three-lane expressway is similar to that of a subway. The maximum capacity of a local subway is approximately 40,000 passengers per hour, that of a three-lane expressway about 7,875 passengers per hour. The cost of maximum hour capacity per passenger is estimated at \$275 for the subway and \$1,270 for the expressway. Further, traffic clogging breakdowns or accidents are not infrequent on an expressway but negligible on a subway.

But if our civic representatives are wholly motor-minded, then the least that should be done is to make proper provision for transit vehicles in expressways. Many already built in the United States make no such provision and, in some, transit vehicles are forbidden their use. The usual estimate of additional cost to include transit is 10 percent, and, in view of the relative public service rendered, its non-inclusion seems hardly defensible.

But, passing from the specialized case of rapid transit, your Association believes that much can and should be done in the public interest to better its position.

Speaking generally, it suggests that the average community should have a greater co-ordination of all civic departments dealing with traffic in order that the best over-all solutions may be reached. Few civic services do not relate in some way to traffic but the most obviously interested are public transit, traffic planning, traffic enforcement,



city engineering and town planning and zoning. There may be too much thinking in water-tight compartments in civic planning, I believe.

It is further suggested that, in any such co-ordination, the voice of transit management should receive maximum, careful attention. If the problem is to move people and not vehicles, it should be ever borne in mind that a passenger in a private car uses 12 times the street space that a passenger in a modern transit vehicle does, and that the carrying capacity of one lane on a city street per hour, under existing conditions, has been authoritatively estimated as follows:

- 1,280 in autos on surface streets
- 2,560 in autos on limited access roadways
- 4,500 in buses on surface streets
- 12,000 in street cars on surface streets
- 18,000 in street cars in subways
- 40,000 in local subway trains

Now as to that I want to make one observation. One of our members believes the figure of 4,500 in buses on surface streets is substantially too low. These do depend on local conditions and it may be in his particular area he is right.

Next, the Association believes that there should be a careful analysis made of traffic costs, public and private, a study of the present incidence of such costs and a considered judgment as to those who should bear them. The results of such a study would probably furnish some surprises.





The suburbanite, motoring daily downtown, who claims that this is a free country, might be astonished to learn how free it is (to him at least). Recent studies in Chicago and Milwaukee indicate that the cost to the urban taxpayer, beyond revenue received for the supplying of highways to motorists, is around \$100 per car per annum. In view of such a figure it may be asked whether a civic wheel tax such as Chicago levies is not justifiable. But, if the traditional practice of furnishing streets at the taxpayers' expense continues, transit, by far the most efficient passenger carrier, obviously should receive its rights of way from the same source.

Now, I would like to say something about that and it may be my own idea more or less, but I am sure the Association would back me up in it. I have a suspicion that in all our provinces our taxation problems are being solved by legislation that came from the 19th Century and deal with 19th Century conditions. We are in the 20th Century now and the Acts have not been changed. At one time, of course, real estate, land, buildings, were the one obvious and available source of taxation. I think the time has come when we do recognize there are other assets available for taxation which should be the subject of a very, very careful study. It has been done to a certain extent by the Canadian Tax Foundation. I don't know whether you know anything about it.

THE CHAIRMAN: We have a copy of it.

MR. FAIRTY: Then I don't need to say



anything about it. But after going through it in a very cheerful manner they say:

"One of the most important inferences that could be drawn from available information however, is that the present level of user charges in most provinces is inadequate."

I read in the paper that one gentleman thought there should be very much substantially improved highways in the province and that the motor tax should be lowered. It seems to me he is taking issue with the finding of the Tax Foundation in making such a statement to this Commission.

THE CHAIRMAN: Dr. Stewart took issue with him himself when he was here.

MR. FAIRTY: During the past year or so, there has arisen, apparently spontaneously, both in Canada and the United States, and not alone by transit interests, a demand for an examination of the question whether it is equitable under present conditions to ask transit users to meet the full cost of transit services. There seems a general unwillingness on the part of civic authorities to approve the fare levels which transit requires, and service cuts are equally unpopular. But the money to make ends meet must be found somewhere and it has been responsibly suggested from a number of quarters that a portion of it should come from any general sources which might equitably be asked to contribute.

The argument for this viewpoint may be phrased as follows: Transit is everywhere in financial





trouble -- it cannot by itself improve its position -- it is an essential public utility and, without it, civic costs would be largely increased and civic prosperity diminished. Then, why treat it as of necessity self-supporting any more than we expect our police and fire departments, schools or parks to pay their way?

The Association believes that, this question being largely a local one, it can advocate no definite answer. But it feels, nevertheless, that it is a matter of policy which civic leaders should face courageously and, by the adoption of one course or the other, give transit, either publicly or privately owned, the assistance it so urgently needs.

This Association further submits that all possible methods be adopted to facilitate the movement of transit vehicles, even if it means that they are given a deliberate preference over other traffic. On narrow streets where such vehicles operate, there should be an absolute, rigidly enforced, parking ban. On wider streets, if some parking is to be permitted, it should not be near transit stops. Traffic officers should be definitely instructed to favour the movement of transit vehicles and, in particular, to have regard to the extra space they require for turning. There is hardly one of our member's services that could not increase schedule speeds and come closer to maintaining schedules than at present if given the co-operation above outlined and, with labour costs such a factor in operation, an increase in schedule speed means



a substantial saving in expenditure.

Probably the most efficacious means of returning highways to their primary user is the prohibition or imposition of severe restrictions on parking. Of course, such measures aid all vehicles to move, not alone transit vehicles. Once again, many motorists believe that the adoption of such a policy is a restriction on their individual freedom. But any law whatever is a restriction on freedom and the alternative to law is anarchy.

Now, down in Nashville recently they have adopted a policy of exclusive lanes for buses in Nashville and it is co-ordinated by all the police. It was highly commended by all writers in the United States and now they are trying it out in Gary, Indiana, and it seems to be working well. I think that sort of thing might work well in Canada. But as to the operation of the motor vehicle, frankly, this Association believes that, as to this, the motorist has no case at all. He has not the hardihood to ask the community to garage his car at home and he is not in any way entitled to store it on public highways at public expense and inconvenience. What the American Mercury said some years ago is still pertinent:

"The taxpayer may well ask: If 75 to 85 of every 100 persons can get to the stores by public transportation why should I be asked to put up money to provide for the convenience of the few who insist on the luxury of private transportation? By what point of privilege does the motor





"car owner who scorns public transportation raise the demand that city funds be spent for his comfort?"

But as to parking, some merchants think they have a better case in requesting street space for their customers than has the car owner. But, the balance of convenience is heavily against them and it frequently turns out that few who join in protests have made any careful study of how their customers reach their stores. Many who have considered this phase of the matter have had a change of heart and a heightened respect for public transit. And, after all, both public and private agencies are available, or will speedily become available, to furnish customer parking at cost.

Now the Association understands that the Commission is asking all making submissions to make an intelligent guess as to the trend of their industry in the next quarter-century or so. In view of the amazing developments of this century to date, this suggestion must be approached with some diffidence.

However, the Association believes that, in view of the remarkable change in public viewpoint as to transit in the past decade, it may confidently look forward to better things and that encouragement of this industry will substantially aid communities in their traffic problems at an inappreciable cost.

It is plain that there will be no street cars in Canada after the next quarter century. Only three Canadian cities, Montreal, Toronto and Ottawa



have them today and all have more or less long range plans for their abolition. They have served a very useful purpose, but they do interfere to a certain extent with traffic fluidity.

The trolley coach is a very popular conveyance, especially because of its quiet and odorless qualities, but it is tied down to fixed routes, has a limited field, and the cost of electric power seems to be on the upgrade.

We would not like to hazard a guess as to the power sources of transit vehicles in 25 years. There probably will be, as now, vehicles propelled by both gasoline and diesel engines but we would prefer others to speculate on the possible use of atomic power.

Dreams have been dreamed as to future use in local passenger transportation of monorails, helicopters, moving sidewalks, conveyer belts, etcetera. Suffice to say that no responsible transit expert on the continent as yet sees any future general use of any of these agencies in local transit.

I might say that it was considered seriously for some time that the shuffle in New York between Grand Central and Times Square should be replaced by a moving sidewalk but the cost was so great it was finally abandoned, and down in Houston, Texas now they are building a monorail 970 feet long and they are seeing if there is any future in the monorail. In view of Henry Ford and the Wright brothers, I hesitate to say anything about it, but it has not been recommended





by any responsible traffic agency on the continent yet. The only one that has been going for some time in the world is in Wurpurtal in Germany but our experts don't think a great deal of the monorail.

I think that is all I have to say.

THE CHAIRMAN: Well, thank you, Mr. Fairty for a very excellent brief and for the very pleasant and easy way in which you presented it. We thoroughly enjoyed it and I think it will help us a great deal. We are grateful to you.

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At 5.30 P.M. The Commission adjourned until 10.00 A.M.  
Friday, February 3, 1956

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ROYAL COMMISSION  
ON  
CANADA'S ECONOMIC PROSPECTS

HEARINGS

HELD AT

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Friday, 3rd February, 1956

APPEARANCES:

Mr. Greg. B. Smith,  
Rubber Association of  
Canada.

Mr. R. C. Berkinshaw,  
President,  
Goodyear Tire and Rubber  
Company of Canada Ltd.

Mr. Crawford Gordon, Jr.,  
President,  
A. V. Roe Canada Limited.

Mr. Harold Evans,  
President,  
Canadian Machine Tools Builders  
Association.

Hon. C. E. Mapledoram,  
Minister of Lands and Forests,  
Province of Ontario, and  
Mr. G. C. Wardrope,  
M. L. A. for Port Arthur,  
representing:  
Northwestern Ontario Development  
Association,  
Northwestern Ontario Federated  
Chamber of Commerce, and  
Northwestern Ontario Municipal  
Association.

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THE CHAIRMAN: I think we might come  
to order now, Gentlemen. The next submission  
is from the Rubber Association of Canada, which will  
Exhibit Number 175, for the record. Mr. Smith,  
if you will just start to present it, we are all ready.

MR. SMITH : Mr. Chairman, and members of the



Commission: The Rubber Association of Canada considers the present investigation by the Royal Commission on Canada's Economic Prospects as a study of the greatest importance to the future of this country and welcomes an opportunity to express its views.

We realize that the sincere co-operation of industry not only may simplify the work of the Commission but also may contribute essentially to better understanding, bringing to light and solving of economic problems of great importance. In our opinion, this can best be achieved if we take a broad view of the situation and consider the problems of secondary industry against the general background of the Canadian economy.

We have attempted to provide information and point out certain problems of the rubber industry which may be useful from the point of view of drawing a general economic pattern as it will develop or should develop within the next twenty-five years. Although in this pattern the rubber industry is only one of the factors, its fate assumes new significance if we recognize that the future of the rubber industry depends upon the same factors as the future of the manufacturing industry as a whole. Most of the problems besetting the rubber industry are common to almost all manufacturing industries in Canada, and





conditions favourable to one will more than likely be favourable to all others. This fact enables us to discuss our problems in such a way as to emphasize their relevance to other manufacturing industries and so to show better the place of the rubber industry in the Canadian economy as well as the identity of interests of all manufacturing industries.

One of the most basic problems facing this country now is the choice between a foreign trade policy leading to international specialization and a policy favouring balanced growth and industrialization.

A decision in favour of international specialization might have the most profound effect on the Canadian economy. For this country, international specialization and free trade would have repercussions going far beyond the "economic adjustments" which are usually associated with this kind of policy.

Economic theory envisages great advantages in specializing in the production of different goods in different countries and then exchanging them in international markets. The usual implications of this policy are that certain industries would disappear and domestic demand be met by imports while other industries would expand and produce for both domestic



and foreign markets. Under this theory the balance in manufacturing industries would be maintained and surplus labour in declining industries would be absorbed by expanding industries without much transitional unemployment or other social disturbances.

Canada's position, however, is rather special and the mechanism of adjustment in our case is not likely to operate as smoothly as it does in theory. Free international trade would certainly mean for this country much more than an "adjustment" in one or two industries. An increase in the intensity of the competitive struggle for international markets creates for us a problem of most serious dimensions since the fate of our entire manufacturing industry may be at stake. We have to carry on a battle on two fronts: on the one hand, we have to compete with low labour cost countries in Europe and Asia and, on the other, we are faced with the mass-production methods and resultant low cost economy of the United States.

While our standard of living is reasonably comparable to that of the United States, our domestic market is small in comparison with that of our neighbours to the south and does not provide the advantages of mass-production generally enjoyed by American manufacturers. On the other hand, our





standard of living is higher than in Europe and Asia so that the labour cost differential in favour of those countries is great enough to give them a cost advantage sufficient to more than offset transportation costs, and so enables them to compete successfully with Canadian producers in our domestic market.

These factors - mass-market in the United States and low labour cost in Europe and Asia - are beyond the control of the Canadian manufacturer, and even if his production methods are most efficient and managerial talent outstanding, he still is unable to fight off the attacks of foreign producers on the Canadian market. Exponents of international specialization may carry their reasoning a step further and say that the logical conclusion for Canada is to become a primary producing country, to allow her manufacturing industry to decline and to rely on foreign producers for the supply of manufactured products. This, presumably, would enable Canadian consumers to purchase goods produced abroad and would eventually increase the demand from foreign countries for our raw materials.

Although in theory there are advantages to be derived from this far advanced international specialization, serious doubts can be raised about the advisability of this course even from the purely



economic point of view. The comparative cost advantages of international trade which lie behind this theory presuppose a reasonably smooth operation of the mechanism of international trade. This is not to say that a state of perfect competition in international markets is a necessary requirement. However, imperfections of the market such as irregular supplies, a state of temporary monopoly position of certain foreign producers with relation to the Canadian consumer at certain periods of time, a lack of knowledge about and lack of continuity of service from available sources of supply, and other similar factors may, in the final analysis, substantially raise the cost of foreign manufactures to the Canadian consumer. At present, the existence of a well developed manufacturing industry in Canada prevents foreign producers from taking advantage of the Canadian consumer in the sense of trying to realize excessive profits in the short run rather than moderate profits over the long run.

It is extremely difficult to appraise in dollars and cents the gain, if any, to the Canadian consumer that might result from allowing foreign manufacturers to enter the Canadian market freely as compared with the loss which would result from the lessening of competition in the Canadian market due





to the elimination of the Canadian manufacturer. This alone should raise serious doubts about the wisdom of carrying the principle of international specialization to such an extreme as to make one country a primary producer and another country a manufacturer of ready-made products.

Even if the purely economic arguments in favour of one of these alternatives are not considered to be sufficiently strong to tip the scales one way or the other, there are very important considerations of a social and political nature which should carry enough weight to help us to make up our minds as to what kind of economic policy will be most beneficial to this country in the long run.

The economic adjustments resulting from a decline in secondary industry and increase in primary production in Canada would most likely be prolonged and painful. If we allow foreign goods to flood the Canadian market the most immediate effect will be a decline in domestic production. Initially it may affect, and already has affected, a few industries. Gradually, however, more and more industries will suffer. The result will be obvious: bankruptcies, liquidations of business, migration of capital abroad in search of better investment opportunities, and widespread unemployment. And all this



may happen at a time of thriving prosperity abroad. The exponents of international specialization will argue, of course, that there will be increased employment in primary production and whatever excess population there remains may emigrate and find employment in more efficient and booming industries abroad. However, between the decline in domestic secondary industry and the pick-up in domestic primary production, there will undoubtedly be a time-lag, perhaps of many years' duration. Besides, there is no certainty that foreign governments will heartily welcome the unemployed from Canada or that the unemployed will be too keen to leave their homes and migrate abroad in search of job opportunities. At best this will create a social and political problem of most serious dimensions. Finally, it is very doubtful whether the people of Canada would accept a policy leading to such consequences of depending upon foreign manufacturers as long periods of unemployment and declining population.

The crux of the matter seems to be whether the price which the Canadian consumer will have to pay as a premium against the risk of being at the complete mercy of foreign governments and manufacturers is reasonable. It is obvious that the existence of tariffs may raise the price of





certain products to the Canadian consumer. It is equally obvious that in the case of our reliance on foreign manufacturers for ready-made goods the price to the Canadian consumer as a result of imperfections of the market may be much higher than now appears probable to those who favour free trade and fail to take into consideration the very likely possibility of a rise in prices that the Canadian consumer would have to pay to foreign manufacturers in the absence of the domestic producer whose mere existence helps to keep the price down. To say the least, the gain appears doubtful. Furthermore, the loss resulting from the transition from secondary to primary production will be of such dimensions that it may wipe out all possible gains to the consumer resulting from the currently lower cost of foreign manufactures.

In short, it appears to us that from the economic, social and political points of view combined, the advantages of balanced growth and industrialization far outweigh the disadvantages. Therefore, it seems that the present Canadian foreign trade policy should be revised as soon as possible with a view to enabling the Canadian manufacturing industry to survive until such time as the labour cost differential or size of the market considerations permit us to compete on even terms with foreign producers.



The Canadian rubber industry may serve as a very good example of the dangers resulting from allowing foreign products to penetrate the Canadian market. In most lines at present we can hold our own. The rubber footwear industry, however, has suffered severe setbacks as a result of competition from extremely low labour cost countries, notably, Hong Kong. We feel that our production methods are as efficient as any and that our workers possess at least comparable skill and industry. However, the cost of labour differential is so wide that we do not have a chance to produce rubber footwear here as cheaply as it can be produced in Hong Kong. Actually, some manufacturers in Canada have been offered rubber footwear from abroad for sale in Canada through their own distribution channels at prices substantially lower than the cost of manufacturing such goods in Canada. From the point of view of making profits it is a rather attractive proposition. It would mean, however, that about five thousand workers currently employed in the rubber footwear industry would lose their jobs and the capital invested in rubber footwear factories would be lost. What is happening now in the rubber footwear industry could easily happen with other rubber products. There are signs that certain foreign countries are expanding





their production and seriously thinking of increasing their exports of rubber goods other than footwear.

The seriousness of the problem becomes apparent when it is realized that the rubber industry not only ranks eighth among manufacturing industries from the point of view of value added by manufacturing, and twelfth according to selling value of factory shipments, but that out of a total of seventy-two establishments thirty-nine are situated in Ontario and twenty-eight in Quebec. Ontario plants alone employ almost seventy-two per cent of all rubber industry labour and produce over eighty-one per cent of the entire output. This concentration of the rubber industry in the Provinces of Ontario and Quebec will make the problem of adjustment in case there is any serious decline in rubber production so much more difficult.

In relation to all manufacturing industries the rubber industry produces close to two per cent of the gross value of production and employs almost two per cent of the total labour force in manufacturing. The growth of the industry can be seen from the comparison of gross value of production in 1933 when it amounted to forty-one point five million dollars and in 1953 when it rose to close to three hundred million dollars; the value of



production increased in this period almost seven times.

There is every reason to believe that, given a favourable economic climate, the rapid growth of the rubber industry can be maintained over the next twenty-five years. It depends to a very great extent on the rate of growth in the car manufacturing industry which uses a large number of rubber products; there are indications that the production of motor vehicles will remain high within the next twenty-five years.

We forecast that passenger car sales will rise from an annual average of less than four hundred thousand new cars in the period 1955 to 1960 to over nine hundred thousand in the period 1975 to 1980 and that registrations will rise from an average of less than four million in the 1955-60 period to an average of more than nine million in the 1975-80 period. Similarly we forecast that new truck sales will rise from an average of slightly more than one hundred thousand in the period 1955 to 1960 to nearly two hundred thousand in the period 1975 to 1980, while registrations will rise from an average of less than one million in the 1955-60 period to almost two million three hundred thousand in the 1975-80 period.

On the basis of these forecasts, we calculate that domestic sales of passenger car and





truck tires will increase from approximately six million six hundred and thirty-five thousand units in 1955 to an average of fifteen million three hundred and sixty-three thousand units in the years 1975 to 1980. On the assumption that prices remain constant, dollar sales of tires and tubes should average about four hundred and twenty million in the 1975-1980 period.

Total sales of all rubber products will probably grow at a much faster rate than tire sales due to the fact that the proportion of industrial rubber products is constantly increasing. With new products coming into the market it seems reasonable to expect that by 1980 total sales of all products may come close to one billion dollars assuming no price inflation.

However, the future size of the industry depends largely on developments in two important fields. One is the impact of new product development, the other is the impact of foreign competition on Canadian production.

Constant improvements in the quality of synthetic rubber give good promise that the rate of new product development in the future will not be substantially lower than it has been in the past.

Great possibilities of expanding rubber



production lie in the field of highway construction. By the addition of a fine, dry rubber powder to asphalt it is now possible to build roads of greatly improved impact resistance, flexibility, temperature stability and ageing characteristics. Also, rubber slabs can be used for smoothing out railway crossings thus reducing maintenance expenses to railroads and eliminating a source of irritation to motorists.

Recent experiments with the application of passenger conveyors to solving the problem of pedestrian traffic congestion give very good promise of increased production in this field due to the almost unlimited possibilities of the adaptation of passenger conveyors for subways, speedwalks, and similar means of transporting passengers in rail and bus terminals, airports, factories, large suburban shopping centres, public buildings, etc. Use of conveyors can also be extended to long distance cross-country haulage of bulk materials.

The recent invention of extremely low pressure pneumatic tire bags for driving over rough and rocky terrain, over soft and unstable ground, through sand, snow, ice or swamp, opens up another source of potential demand.

There are also tremendous possibilities of increasing the production of mechanical rubber





goods as well as the number of new products in connection with the tendency towards automation and great expansion of manufacturing facilities.

A newer field of rubber industry product development is found in rubber-like plastics which can be processed by machinery similar to that used for rubber.

These are just a few examples of new product development possibilities. They do not, by any means, constitute an exhaustive list of such possibilities and can serve only as an indication of the potential expansion of the rubber industry.

In spite of these development possibilities the growth of the rubber industry in Canada can be seriously impaired by foreign competition.

The most serious danger faces the rubber industry in Canada from highly industrialized countries with labour costs lower than ours and especially those where rubber industries are well established. However, in making our forecast of the future size of the rubber market in Canada we have implicitly assumed that drastic changes in the Canadian economy will be prevented by appropriate changes in the Canadian foreign trade policy. We have assumed that the considerations of a social and military nature alone will be sufficient to warrant appropriate



changes in the foreign trade policy necessary to give our rubber industry a better chance to compete with foreign producers. An important factor adversely affecting our chances in this struggle with low labour cost countries is, to some extent, the North American way of life. The highly competitive nature of the free enterprise system prevailing on this continent contributes to the relatively high costs of distribution. No reliable statistics are available but it appears that the ratio of distribution cost to manufacturing cost is much lower in Europe or Asia than on this continent. The fact that domestic competition in those countries is not so expensive as it is here lowers their overhead costs and so gives their products available for export an additional cost advantage over goods produced on this continent. However, it may be very difficult to offset this extra cost advantage that foreign producers have over us, since this seems to be the price the Canadian and American peoples are willing to pay to maintain our system of economic freedom and democracy.

Another serious problem facing the rubber industry today is the question of conflict between the economically desirable and legally required degree of competition within the industry.

From the economic point of view competit-





ion is desirable because it serves a certain purpose: as a result of the interplay of demand and cost competitive markets guide the flow of resources towards the most productive uses, provide incentives for innovations and product development and help reduce costs by the elimination of inefficient producers. In other words, competition protects the consumer by providing him with goods produced as cheaply and efficiently as the current state of technique will allow.

However, economics also takes cognizance of the fact that there are great advantages in large-scale production and so recognizes the necessity of amalgamations if market conditions make it desirable. In every industry there is a certain size of firm which can be considered optimal from the economic point of view. The size of the market for the industry and the optimal size of the firm determine the number of firms that will be required to meet the demand in the most efficient way. There is no sacred rule as to the number of firms that should exist in an industry. It may be many or few and the number may have to change as economic conditions change. For this reason an attempt to limit arbitrarily the minimum number of firms existing in an industry at a certain time may be equivalent to imposing upon



that industry the necessity of producing for the market through economically inefficient firms and thus, instead of protecting the public interest, may actually contribute to the worsening of the position of the consumer.

Similarly, there may be at times certain agreements which, although they seemingly aim at the elimination of competition, in fact might well improve efficiency and so lower the cost to the consumer, which, in the final analysis, is the main purpose of promoting competition.

The basis of anti-combine legislation is the strong belief that in any free country competition is the best form of economic organization and so the right to competition should be protected.

Although economics is responsible for developing this theory, most economists do not subscribe to this view as unconditionally as do the anti-combine legislators and the interpreters of this legislation. Basic thinking of those interpreting the legislation seems to be that the task of the court is not to consider the economic implications of the case but merely to decide whether or not there was a breach of law. Their justification for this approach appears to be found in the fact that economic considerations are so involved and controversial that





it would be impractical to attempt to adjudicate any case on this basis. However, these decisions have sometimes a great bearing on economic life and therefore it is most important that economic considerations are, at least to some extent, taken into account.

Canada has many sound economic reasons for modernizing her anti-combines law. More realistic legislation based on a sound economic approach may contribute substantially to the increased efficiency of Canadian corporations and so enhance their chances in the hard competitive struggle in the international market that lies ahead of us. It appears that in this struggle we are burdened with so many handicaps beyond our control that we just cannot afford to neglect an opportunity of improving our competitive position, especially if it also means lower cost to domestic consumers and better allocation of capital and other resources.

The analysis presented above leads us to the conclusion that the following recommendations should be submitted for the consideration of the Royal Commission on Canada's Economic Prospects.

(1) In view of rapidly changing conditions in the international economy, an immediate and detailed study of the Canadian foreign trade policy should be undertaken in order to establish



what economic policy will best provide a favourable climate for the growth and development of secondary industry in order that Canada may enjoy continuous balanced growth, progress and prosperity and what changes in our foreign trade policy are required for the most effective implementation of this policy.

(2) To protect the public interest a study should be made with regard to possible changes in anti-combine legislation to take into consideration actual changes in industry and commerce which have occurred since the original legislation was enacted in 1889. The whole Act should be redrafted and modernized.

(3) A Department of Economics headed by a cabinet minister should be created for the purpose of carrying on continuous studies of population, national income and other general economic indicators both here and abroad. These studies and forecasts should be made available to the public and an effort should be made to popularize the knowledge of economics and to establish regular contact and exchange of ideas between the government, businessmen and professional economists. Consideration might well be given to making the Dominion Bureau of Statistics a division of this department.





THE CHAIRMAN: Thank you very much Mr. Smith - just on that last point of yours, the Department of Trade and Commerce, of which the Dominion Bureau of Statistics is a part, is already active. Is it your considered opinion that there should be a third department to deal with these matters? I would have thought that it would have confused the issue, rather than helped it.

MR. SMITH : Well sir, I think our idea is that that type of work should be concentrated in one department, possibly also, carried further than it is, and more of their work, or the results of that work, should be published and readily available.

THE CHAIRMAN: Still on that point, the economists in the various government departments, but headed by the Trade and Commerce Department, do hold periodical meetings with so-called business economists, at which meetings views are exchanged. I don't suppose we will ever get all the information we would like to have, but we do get so much more now than twenty years ago, that there really is no comparison between the two periods. Certainly, if we could get a little more information it would be helpful, but, at the same time we have made a tremendous amount of progress in that direction. However, I won't pursue that. In your submission you have dealt



at quite considerable length with the question of imports and the difficulties which those imports are creating for the rubber industry, but it seems to me that, to deal with the rubber industry intelligently, you have to break it down. For instance, tires would be much the biggest proportion of the industry, I presume -- what percentage of the whole industry would tires represent?

MR. SMITH: Roughly half of the total dollar production of the industry.

THE CHAIRMAN : Well are there any importations of tires, to speak of ?

MR. SMITH : Quite substantial, and increasing.

THE CHAIRMAN : From where ?

MR. SMITH : Mainly at the present time from the United States, but certain quantities and certain types, coming in from France. We have reason to believe that Japan is beginning to show interest in this market, also, for tires.

THE CHAIRMAN : Are they exporting to Canada yet ?

MR. SMITH : I don't think the statistics yet reveal any imports from Japan, but I understand, however, that a Japanese tire manufacturer has established a selling agency in Vancouver, and presumably





they are just exploring the market.

THE CHAIRMAN : What percentage of Canada's imports would be accounted for by imports of tires to date?

MR. SMITH : I would say up to date it is rather small - it would not exceed five per cent.

MR. BERKINSHAW: The figure in our total is eight per cent of the total demand for rubber products being imported - I don't think it is broken down into the matter of tires etc.

THE CHAIRMAN : I can well imagine that it would be, if you include other rubber products, but I am just surprised in the case of tires, where the advertising from American business is so important.

MR. BERKINSHAW : The brief was submitted to you - do you have your copy there ? It shows that importations of tires and various products into Canada -- have you got the page for reference, Mr. Smith ?

MR. SMITH : Well, that is in terms of dollars, of course --

THE CHAIRMAN ; Well , really what I am looking for is, whether the importing of tires is an important percentage ?

MR. BERKINSHAW : It is increasing to a considerable extent, particularly in the last few years and I am trying to find the statement here --

MR. GUSHUE: I think it is on page 23.



THE CHAIRMAN: Well, that doesn't show tires --

MR. GUSHUE : No, they haven't broken it down.

MR. SMITH : On page 59 sir, in the brief, it shows certain importation figures. In Nineteen fifty four, four million dollars worth of tires were imported, in the eight months of Nineteen fifty five, four million, seven hundred and nineteen thousand dollars' worth - and I have here somewhat later figures, in the ten months of Nineteen fifty five, six million, one hundred and sixty five dollars' worth of tires were imported. Four hundred and sixteen thousand units.

THE CHAIRMAN: Well can you tell me how the cost of tires compare in Canada with the United States and the United Kingdom?

MR. BERKINSHAW : You ask that question Mr. Gordon - and that point is covered, I think, in the matter of costs in this brief, I believe on page seventy six. "Costs, Profits and Capital". We attempted to make some comparison, but in getting into the facts and the study of it, we found that we encountered so many difficulties, it was really very dangerous to make any actual comparisons, because the data necessary for comparison is largely of a confidential nature. There are, moreover, no reliable





statistics published, and even if reliable statistics were published, it still would not be possible to make any significant comparison since any comparison would be, in our opinion, inclined to be misleading. Rubber manufacturers produce a great variety of items and the proportion of each item produced, varies considerably from plant to plant.

THE CHAIRMAN : I have read the brief, Mr. Berkinshaw, you were kind enough to send your brief in, well ahead of time.

MR. BERKINSHAW: Yes.

THE CHAIRMAN: I think we are all very grateful to you, and I wouldn't like you to think that I had not read it.

MR. BERKINSHAW: Oh no, no - that's fine, I appreciate that you have read the brief. I just wanted to bring out that point, but if you would like to take it from my experience, on an average the percentage for Canada would be about fifteen per cent higher.

THE CHAIRMAN: Fifteen per cent ?

MR. BERKINSHAW : Or more, due to the factors brought out -- that is just a rough figure.

THE CHAIRMAN : The other day Mr. Goss of the Canadian General Electric was talking to us about the optimum size of plants in mass-producing



refrigeration plants, and that sort of thing. In a tire plant, is there any optimum size ?

MR. BERKINSHAW : It is difficult to answer that, I think --

THE CHAIRMAN: Well, if Goodyear had all the business, would it be a good thing ?

MR. BERKINSHAW: No, I don't think it would be.

THE CHAIRMAN: Mr. Funston says no.

MR. BERKINSHAW : No - with this gallery behind me! It would be true, however, that there is a size of plant you couldn't put up; it would be foolish to try and put up a plant which would produce say a hundred and fifty tires a day; it wouldn't carry the capital investment, which would be so great. You wouldn't make any money on it. However, as to how large a plant should be before it stopped growing, that is rather difficult to say.

THE CHAIRMAN : What I would like to know, really, is this -- are there too many people making tires in Canada, to produce them as cheaply as they could perhaps be made, if there were fewer companies ?

MR. BERKINSHAW: Well, I think in answer to that, I would just say that if you could get long runs - mass-production runs of certain tires which would run in volume, you could considerably





reduce the cost. In our plant we make something like six hundred different tires, and sizes of tires, which of course, does affect your cost.

THE CHAIRMAN : I am not just thinking of tires, but this question runs through an appraisal of the secondary manufacturing industry in Canada, where there is a small market, and we started off with a good many industries and a great number of companies. Now, it is suggested that in some industries there are still, in fact, too many companies trying to serve a relatively small market, and if we are going to cut down our costs in this country, there is room for further amalgamations, or mergers, or concentrations - whatever word you like to use. It has been suggested that that is the fact in some industries and I was wondering whether it would be true in yours, except for the contributing factor ----and I may be wrong about this---- but as I recall, off hand, all the companies in Canada who make tires, are subsidiaries of, or affiliated with British or American car manufacturers. Therefore the opportunities for amalgamation are not too apparent, shall we say ?

MR. BERKINSHAW : Yes. Each one of them naturally wants a share of the market, as they have had.

THE CHAIRMAN : Well, each want a share of the market, but does that necessarily mean the share is going to be too small to permit the maximum economies



of manufacture?

MR. BERKINSHAW : Well, there is a contributing factor that comes into this picture, I think -- and that is the competitive factor. It depends whether there is an opportunity, from an economic point of view, for that particular industry to invade that market, and if it cannot survive, it drops out. It would seem to me, natural, that if you try to regulate the number that should be in an industry, or expanding, or anything like that, that you would run into an awful lot of complications.

THE CHAIRMAN : No - I wasn't thinking of regulation at all, Mr. Berkinshaw, I want to get down to this question of imports, but, as far as the tire industry is concerned, that was fifty per cent of the whole industry -- you say it is fifty per cent?

MR. BERKINSHAW: Yes - roughly --

THE CHAIRMAN : But would you not agree that one of the important fields for importation and where importation is particularly damaging, I suppose, is rubber footwear ?

MR. BERKINSHAW : That is where it has given trouble - very severely - to date. And these companies that make footwear, have had their operations very drastically curtailed, as a result. I think they are now supplying about fifty per cent of the market.





THE CHAIRMAN : And what about mechanical goods-- are importations as serious there ?

MR. BERKINSHAW : They are not as marked -- importations of mechanical goods mainly come from the United Kingdom, which are largely under the special, preferential rate of duty. It is not as marked as it has been in the footwear industry. Mr. Smith has now drawn to my attention that on the subject of mechanical goods, in the matter of belting for instance, over the ten months ending October Nineteen fifty five, there were a substantial amount of imports from the United States.

THE CHAIRMAN : Going back to tires, for a minute, has the trend towards brands, put out by some of the department stores and so on, or the oil companies, tended to reduce your profit margin ? I don't mean your company, but the industry generally. You produce these brand tires for them, I suppose?

MR. BERKINSHAW : Speaking for my company -- perhaps I should let Mr. Smith answer that question -- but we don't make any special brand tires. There are, however, a number of companies in Canada who do make them .

THE CHAIRMAN : Would they make the same type ?

MR. BERKINSHAW : Well it has had an effect on the general level of the market price - and it



has become a growing segment in the tire industry - it is quite substantial -- the differential between the published prices of standard brands and those of special brands.

THE CHAIRMAN:- Where does your old baby "Polymer" fit into this picture ? Has it grown up to be a frankenstein in the industry ?

MR. BERKINSHAW : Oh no - it is the industry's sole source of supply for synthetic rubber, Mr. Gordon. There are some special types which Polymer doesn't make, and there is a certain amount of importation of those types, but it is basically the source of supply of synthetic rubber for all the rubber industry in Canada, and it has fulfilled that role very, exceptionally well. There have been times when, due to the fact that Polymer has developed a very substantial export trade, that they have over-sold the capacity of the plant, when the price of crude rubber began to rise, demands for synthetic rubber increased. There has, therefore, been some adjustment period, but by and large, it has been a very satisfactory and exceptionally happy association.

THE CHAIRMAN: You are pleased with your product?

MR. BERKINSHAW : I think so. I am quite pleased with it.





MR. GRAUER : On page six of this brief, you say, "it therefore seems that the present Canadian foreign trade policy should be revised as soon as possible, with a view to enabling the Canadian manufacturing industry to survive, etc. etc. " That came after discussion of the two points you made, International stabilization and United States industrialization -- I take it from that, that you feel that the present Canadian foreign trade policy is tending to put, if not the rubber companies, at least some companies in Canada, out of business - is that a fair deduction?

MR. SMITH : Yes, I think that is true; at the present moment, the rubber footwear industry is being very seriously threatened with extinction within two or three years, unless steps are taken to stop or to check or to limit imports from such areas as Hong Kong and Japan -- in fact, quite possibly, you have noticed in the newspapers, just at the start of this week, that one very large and old-established Canadian manufacturer of rubber footwear has decided to close out his rubber footwear business.

MR. GRAUER : What proportion of the sales of the industry is represented by rubber footwear?

MR. SMITH ; At the present time, possibly ten per cent.

MR. GRAUER : Is it the type of



industry that one can go into and out of quickly, or is the type of industry where there is a considerable capital investment ?

MR. SMITH : There is a very considerable capital investment required. I understand - or I have heard it said - that, to establish a rubber footwear plant of a reasonable size, large enough to have a chance of succeeding in the market -- would require an investment of about two and one half million dollars.

MR. GRAUER : You would think ordinarily it would have a relatively small labour content, in an industry like that, where you have quite a considerable capital investment.

MR. SMITH : No, on the contrary it has a very high labour content - possibly, of all rubber products, it can least be mechanized.

MR. GRAUER ; Then that is why the competition is coming from Hong Kong.

MR. SMITH : Yes, that is why. I believe, possibly, over the average of the whole rubber footwear industry - even in your most highly mechanized Canadian and American plants - as much as fifty per cent of your cost, is labour.

MR. GRAUER - On page seven there are some growth statistics given from Nineteen thirty three





to Nineteen fifty three. Now having in mind that Nineteen thirty three was a depression year, if you took say Nineteen twenty three, to Nineteen twenty nine, would that show any material change in the growth trend ? If you took, possibly Nineteen twenty nine as your base year, instead of Nineteen thirty three, what would your situation be ?

MR. SMITH - I doubt sir, whether I have those figures with me.

MR. GRAUER : Well let us do it the other way then - was Nineteen thirty three a substantially worse year than, let us say, Nineteen Twenty eight ?

MR. SMITH : I would definitely think so - I seem to have a vague recollection that until just a few years ago - we produced more tires in Canada in Nineteen twenty nine than in any year until about some time in the 'Fifties.

MR. GRAUER : That is what I was getting at - you showed a striking trend in these years but I think it is not quite that steep.

MR. SMITH : Yes - I think very possibly it could be slightly misleading in the impression given by choosing Nineteen thirty three. I think it was done that way because it happened to be the earliest year shown in the latest copies of the Dominion Bureau of



Statistics Reports, but if you wish to go back, sir, I will gladly send you the Nineteen twenty nine figures.

MR. GRAUER : Thank you very much.

On the following page, reference is made to total sales in Nineteen hundred and eighty - it says that there will be a very decided increase; Making the usual assumptions about the industry being in much the same state from the point of view of legislation as it is now, as you grow towards this one billion dollar size in Nineteen eighty -- is this industry capable of making important economies, with the larger scale of production or is it the type of industry where you don't make very important economies as you grow in size?

MR. BERKINSHAW : I am just wondering what you mean by economies --

MR. GRAUER : I was thinking of your competitive position; by economies I mean your unit cost, Mr. Berkinshaw ?

MR. BERKINSHAW ; Yes - well as you grow in size, or as you are able to get longer runs of certain similar types of product, so you can reduce your cost - your unit cost. I would assume that what would happen here, is that Canada would sort of follow the pattern that has been established in the United States, where they have a large market - that plants would be put up that, for example, would make three or





four, or four or five, different sizes of tires, with long runs on them, in order to keep costs down.

MR. GRAUER : There would be quite a marked reduction then ?

MR. BERKINSHAW : But there is no market now, to provide for that.

MR. GRAUER : No.

MR. SMITH : Is it not possible, also, sir, that a larger population might conceivably mean important economies in distribution ?

MR. BERKINSHAW : Oh yes, that's right of course, because, we could then follow in that pattern, in that we would locate the plants as close to the market as possible.

MR. GRAUER : You would tend to close the gap then, would you, as between Canada and the United States, in production costs ?

MR. BERKINSHAW : If you had similar characteristics.

MR. GRAUER : I am using this assumption of sales, which you make, for Nineteen eighty, of one billion dollars; there would be a tendency between now and Nineteen eighty, to close the gap, would there not?

MR. BERKINSHAW : Yes, I think there would be a tendency to get closer to that. As far as the matter of unit costs is concerned, if you have a larger



market, as in the United States, where of course the industry is protected by the creation of a favourable climate for development of the industry--

MR. GRAUER : Yes, I am making that assumption for the purpose of this conversation.

MR. BERKINSHAW : Yes.

MR. GRAUER: When you lower your unit costs, would that trend apply equally to rubber footwear, or is it in a different category ?

MR. BERKINSHAW : I am not in a position to speak on that -- I doubt if you could. It would be very difficult to compete with a six cent an hour labour cost, when you have to pay a dollar forty five, approximately, for it here, even with the most efficient equipment and management.

MR. GRAUER : I am talking really about the size of market now, I am not introducing the wage factor. If you had a considerably growing market over the period of the next twenty five years, would that affect the unit cost in the rubber footwear industry, as much as it would the other parts of the rubber industry, tires for instance ?

MR. BERKINSHAW : Well perhaps some of the manufacturers who might be here would like to speak to that.

MR. GRAUER : Yes, certainly.





MR. THACKRAY: Yes sir, I would like to answer that question, if I may. I think it would have, as far as the rubber footwear industry is concerned; with the high percentage of labour content, volume is less of a factor in the cost, than in the case of tires. And the difficulty with the fifty per cent labour content, or thirty five to fifty, at one and a half dollars an hour, as against ten cents an hour, for the same labour content, is that it is a gap that we can't bridge, and we will be extinct before that volume arrives.

MR. GRAUER: Well when there is a high labour content of course, if technicological improvements come along, this problem might then be met ?

MR. THACKRAY : Well of course we are working very definitely on that phase of the business right now. We have very extensive research and development departments who are going into a considerable amount of detailed research, and have done over a period of years, with respect to the automation of methods, but the manufacturing of parts for footwear is very difficult to mechanize. That is our difficulty against the Hong Kong and Japanese labour.

MR. GRAUER : I gather you think there is some hope along the mechanization path, but not too much - is that the situation?



MR. THACKRAY : Yes, we are quite definite about that - there is not enough, and we of course, also make tires, but we think there is nothing to stop - over a period of years - the sale of tires in Canada produced in Japan, with the same labour differential. That is not quite as serious, it is true, by virtue of the fact that labour content in tires is substantially less than the labour content in footwear. However, it is also certain that the Japanese can produce footwear, so who is to say they can't produce tires?

MR. GRAUER : In your forecast of one billion dollars in Nineteen Eighty, to what extent, if any, did you take into account the various development possibilities that are mentioned on page ten, at the bottom of page ten ?

MR. SMITH : Well, we are counting on new products being developed at about the same rate which they have been developed in recent years.

MR. GRAUER: It is based on historical experience then ?

MR. SMITH : Yes,

MR. GRAUER : Do you suggest that the future will see products developing at a faster rate - how do you think your experience will work out ?

MR. SMITH : Well, that is quite a hard





question to answer - definitely I think we can assume that new products will be developed at about the rate that they have been in our experience, in the past.

MR. GRAUER: One hears so much stress on research in these days in the new world, and the basic discoveries that have been made with the aid of physics and chemistry - I was wondering what the effect of that factor would be in the field of new products - do you think it would be about the same rate as in the past ?

MR. SMITH : Well that is about the best assumption we can make.

MR. GRAUER : That is the safest one, anyhow.

MR. SMITH : The safest.

MR. GRAUER: Then, turning to page ten, you do go into certain factors relating to low labour content, and apparently this is tied in with the type of political systems that exist elsewhere. You say "however, it may be very difficult to off-set this extra cost advantage that foreign producers have over us, since this seems to be the price that Canadian and American people are willing to pay to maintain our system of economic freedom and democracy." One hears a good deal about free competition, for instance the experience



of the rubber industry which my firm has - is that competition appears to be very keen.

MR. SMITH : Thank you sir,

MR. GRAUER : You would have factors like that, would you not, working the other way ?

MR. SMITH : Well, I suppose that is true, but on the other hand, I think the American and Canadian people have come to demand much more in the way of service - and very extensive service - from suppliers; far more than people in Europe and Asia expect.

MR. GRAUER : It is a very general field in that respect then ?

MR. SMITH : Yes.

MR. GUSHUE : On page six of your summary and also, to a greater length in your brief, you refer to the necessity of revising the Canadian foreign trade policy; "to enable the manufacturing industries to survive" - on the same page you say " in most lines at present, we are holding our own" . I take it that revision means towards a greater protection of the industry in some of its lines -- are you able to say what particular portions of the industry that applies to ?

MR. SMITH : Well of course, the one that is in most immediate trouble is rubber footwear. However, there are other lines, as we have indicated in our brief, which are experiencing a very rapid rise in





importation. I can think of one, the rather minor line, for example, of bicycle tires, which is experiencing a very rapid rise in imports from West Germany and the Netherlands. I recall reading, not very long ago, in a Report by the Canadian Trade Commissioner in the Netherlands, that the average wages in the Netherlands' manufacturing industries, is some seventeen dollars a week for a man and ten dollars a week for a woman. I see no reason to believe that Canadian workers are inherently more efficient or more industrious, or more intelligent than the German or the Dutch, or that there is any magic way in which the Canadian Manufacturers can make their plants more efficient than the Dutch or the German plants. But these increases have reached the point where, quite recently, one of the few remaining Canadian manufacturers of bicycle tires got out. They felt it was just unprofitable - or too little profitable - to be worth while to continue in business. We have, as you see, substantial increases in the importation of industrial rubber products from the United States, mats and matting, gaskets, and hoses, belting etc. In those cases the proportion of imports into Canada, to the Canadian production are not yet as high as they are in items like footwear and bicycle tires, but they are rising steadily, and that is the disturbing point.



MR. GUSHUE : We have heard varying views, as you can appreciate, from one part of Canada to the other, ranging from a completely free trade to greater protection - and it is very nice to get an answer to specific points. I wonder if you would deal with your rubber footwear industry, and specifically suggest an answer to this question, that could possibly be put -- for we still have some further sittings, and very often these points are picked up from one sitting to another. You mention on page seven that about five thousand workers are currently employed in the rubber footwear industry, I take it that is not full time in rubber footwear. It is conceivable that we might be faced with the argument that, say ten million people in Canada wear rubber footwear -- I don't suppose babies do, so we will make it ten million -- would it be putting the price of rubber footwear up, to those ten million people ? Would you care to deal with that possibility ?

MR. SMITH : Yes, I have to admit that it would.

MR. GUSHUE : You see, this is the sort of thing we are likely to be faced with.

MR. SMITH : Well, in the case of rubber footwear, which is essential in a country with a climate such as we have, we don't believe that it is advisable that Canada should depend on Hong Kong or Japan or





Czecho-Slovakia for supplies of rubber footwear.

MR. GUSHUE : That would be your answer to the problem then. Just one more question, on page nine you refer to the great possibilities of expanding rubber production in various ways -- in highway construction, in passenger conveyors, and in many other branches. How immediate is the possibility of these things coming about in large measure?

MR. SMITH : Well they are all in the stage where actual experiments are being conducted -- there are a number of test roads in Canada in several of our provinces; there are quite a number in the various states of the United States and they are going through a number of European countries and in Malaya and in Indonesia. I believe in some cases that test roads have been laid long enough to make it possible to evaluate the efficiency of the new rubber asphalt roads, and I presume it is now a question of convincing Highway Authorities that they should adopt this new product. In the matter of passenger conveyers I understand that one at least has been erected in the United States, in New York, and I believe it is quite successful.

THE CHAIRMAN: What effect will that have on the tire industry? As Mr. Grauer has just said to me, they won't wear out as quickly --

MR. SMITH : I don't think that these



passenger conveyors will be very likely to affect tire sales.

THE CHAIRMAN : I was thinking of the highways.

MR. SMITH : Oh - the highways.

MR. BERKINSHAW : Would they make tires run longer ? That would be a very difficult question to answer.

MR. GUSHUE: I think it is an irrelevant question!

MR. STEWART: At any rate, it is a possibility that these things will happen - they are not just remote possibilities ?

MR. SMITH: Oh no, sir - no. These things are actually working today - it is just a question of popularizing them.

MR. STEWART : How many firms in Canada are making tire casings ?

MR. SMITH : Seven or eight - depending on whether -- well perhaps Mr. Berkinshaw would like to answer that ?

MR. BERKINSHAW: Well, there is one tire company that has its tire casings made by another manufacturer.

MR. STEWART : How many plants have they got ?





MR. BERKINSHAW : How many plants making tires ?

MR. STEWART : Yes.

MR. BERKINSHAW : I don't know; there are seventy two establishments in total, but I couldn't tell you how many there are just working on that. About nine I think.

MR. STEWART : Nine plants -- have there been any recent entries into the industry - new firms ?

MR. BERKINSHAW : There is one company that has started to do business in Barrie, within recent years - they have commenced in the rubber industry, but I don't know the extent of their production. They are not looking at the standard items, they are looking at the specialized items.

MR. STEWART : In rubber footwear, would some of those companies make tire casings ?

MR. SMITH : In one case.

MR. STEWART : Only in one case ?

MR. SMITH : At present, yes.

MR. STEWART : The others are separate firms ?

MR. SMITH : Until very recently in two cases, but, as I mentioned, one company decided to get out of business, so now there is one company that makes footwear, and also makes tires.



MR. STEWART : What is the advantage of using the tariff as a means of protection against a straight prohibition ? What I mean is, should we simply prohibit the importation of rubber footwear from Japan and be done with it ?

MR. SMITH : In theory, probably not, except this, that the tariff seems to be the accepted way in our present foreign trade policy; as a matter of fact, in the case of rubber footwear, we realize that a tariff is not the answer and cannot be the answer. The differential in price is so extreme that it would be ridiculous to impose a tariff rate that would permit us to survive, in that case.

MR. STEWART : Why do you say that?

MR. SMITH : I say that because Hong Kong footwear can be landed in this country, duty paid, at about half the cost of producing such footwear in this country, and I just can't envisage a tariff rate of about two or three hundred per cent, say. We feel that what is necessary in that case, is an import quota.

MR. STEWART : In a static situation, that is where the domestic demand is not increasing as a given quantity and at a price at which you can sell a commodity - under those conditions, any importation would reduce the domestic production ?





MR. SMITH : Yes.

MR. STEWART : And in that situation what sort of a quota would you want ?

MR. SMITH : Well, we have not actually got down to the details on that. We have suggested that a quota would be the answer, based on average importations in say, a recent three year period. That is to say, --

MR. STEWART : To stabilize the level of importation, that is ?

MR. SMITH: Just to stabilize the level of importation.

MR. STEWART : No increase.

MR. SMITH : Well of course, one of the difficulties of the situation for the Canadian manufacturer, is that he simply cannot plan ahead; Canadian manufacturers are faced with this constantly increasing flood and the production of footwear has to be planned in advance; you have to produce in advance of your sale. It is rather a difficult position for any manufacture to find himself in - to put out millions of dollars into an inventory, with no certainty whatsoever that he will ever be able to sell it.

MR. STEWART: Supposing the domestic market is increasing, what sort of quota arrangements would you consider reasonable in that case?



MR. SMITH : Well - if the domestic market were increasing, it might be reasonable to assume that the import quota would increase with the increase in the market. We don't ask for one moment to be given - nor do we feel - that we should be given a monopoly of the Canadian market. We are quite prepared to admit that trade has to be a two-way proposition, but we still feel that we bear a little more than our fair share of the burden of making it a two-way proposition in the footwear.

MR. STEWART : I take it, as far as the static situation is concerned, that you don't want any more importation?

MR. SMITH : Oh, certainly not, we have already lost more than half of our market, of Canada's market in footwear, and fifty four per cent of the market in Nineteen fifty five, was going to be supplied by imports. That is on top of a loss of the South American buyers of exports, that we had built up over fifty years.

MR. STEWART : And if the domestic market is increasing, you would like to have an increasing share of it ?

MR. SMITH : Yes, sir.

MR. STEWART : There is a problem there, though?

MR. SMITH : Yes, oh yes.





MR. STEWART: In many parts of the country, as we have been moving around, we have heard of the great resources in our oil, and in our forests, and in mining, the mineral areas in this country, and so on. We are apparently pretty well stocked with that kind of material. Now the argument which has been advanced to us, is that in order to develop these resources it is also necessary to have a fairly large market, either a market for the raw material itself, or for the products which could be manufactured here from the raw material. Do you feel that in Canada's future there is a place for the expansion of these activities ?

MR. SMITH : Primary industries and industries based directly on primary resources?

MR. STEWART : That's right.

MR. SMITH : Oh - most certainly sir.

MR. STEWART : They do need, apparently, a large market, and in order to get the capital investment to develop them, it seems to be necessary to have a fairly substantial and growing export market for them?

MR. SMITH : Yes, that's right.

MR. STEWART : Are we going to give these things away, or are we going to expand them and if we are going to give them away - what are we going to get in return for them ?



MR. SMITH : Well, I don't think it necessarily follows that the amount of production which our secondary industries develop, will necessarily deprive the primary industries of such export markets as they need. We feel that this country is going to develop properly, as it should, and will develop a balanced economy of primary industries and secondary industries; and in any case, raw materials generally do not face tariff barriers.

MR. STEWART : But doesn't it seem as if there is a problem here, with the rate of growth, if we are thinking of a balanced economy ? You are saying that we should anticipate the growth of these industries - the question is again, a question of rate, and in the discussion that we had earlier, about the expanding domestic industry, that seemed also to boil down to a question of rate ; so that, is it not basically a problem of trying to balance the rates of growth in one or the other field, and so meet the question of imports ?

MR. SMITH : Yes, well I suppose it is a question of rates of growth in the two segments of the economy--but the point is that, under the present tariff policies, secondary industries might have no growth - in other words, they might diminish in size as our footwear industry is diminishing in size.





MR. STEWART : Yes, I was just trying to see if we could clarify the basic problem which we have.

THE CHAIRMAN : Thank you very much Mr. Smith. This has been a very interesting submission and we are very grateful to you. I think we might have a short recess.

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Recess  
After Recess  
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THE CHAIRMAN: Gentlemen, shall we come to order please? We are ready to hear from you Mr. Berkinshaw, on behalf the Goodyear Tire and Rubber Company of Canada Ltd.

MR. BERKINSHAW: I had a brief statement which I was proposing to present in support of the presentation made by Mr. Smith, on behalf of the Rubber Association. However, most of the points have been fairly well covered, so that I would like to have the privilege of sending a copy of this statement to each member of the commission, and I believe that the questions which you indicated in your letter to me, upon which the commission wished to have particular information, have been pretty well covered. So, if that is agreeable to you, I will leave it on that basis ?



THE CHAIRMAN : I think that would be the best way to solve the problem. We will mark your submission number 176 so that it will be in its proper place when you do produce it.

MR. BERKINSHAW : Thank you very much sir.

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THE CHAIRMAN : The next item on the agenda is the submission of Mr. Crawford Gordon of the A. V. Roe Company, on the probable developments in the aviation industry of Canada. I would like to thank you, Mr. Gordon, for sending us a copy of your submission well in advance, which gave us a chance to read it and think about it over the past week or two.

MR. LUSSIER : I would like to say that I appreciate very much that you have sent me a French copy. It was in very excellent French, and I realize that you made an effort, because I was the only commissioner who spoke the French language. I will be very pleased to tell my fellow citizens the excellent way you are doing things. Thank you very much.

MR. GORDON : Well I hope my French was all right sir.

THE CHAIRMAN : I think Mr. Lussier won't mind if you make your submission in English.

MR. GORDON : Thank you sir.

THE CHAIRMAN : Would you like to proceed?





MR. CRAWFORD GORDON - It is not my intention to repeat the detail of the brief which was submitted to this Commission in advance of this hearing. But I would like to summarize in chronological order the major points and also to underline, if I may, some of the conclusions which were reached. Then, if the Commission desires, I would be glad to answer any questions you might have.

First, I would like to state that it is my firm belief that Canada's progress as a nation probably depends more than any other country on progress in the air. This is due largely to geography in relation to our increasing population and the vital role of the aeroplane in the development of our vast natural resources and finally, the universal potential for expansion of air transportation into areas now served by other forms of transportation.

If this progress in the air is to come, it can only occur if our aircraft and equipment are as good or better than that of other countries. The first point therefore in our brief deals with the world trend in aviation.

This is the sole governing factor in what must happen in Canada if we are to first, maintain



an effective air force in accordance with present defence policy, and second, match on a competitive basis the service and performance standards of world commercial aviation.

These trends can be predicted with a reasonable degree of accuracy because of the very close relationship between military and civil aviation. In the first place, the impetus for practically all aeronautical advances comes from military aviation. It is a historical fact that, except in one or two cases, every commercial airliner flying today is a direct offshoot of a military aircraft. The reason for this is that the research and development needed to bring about a major advance are so costly that seldom can they be justified from a purely commercial point of view. This limitation does not apply to the military. When it becomes a matter of survival, economics are secondary.

Hence, improved performance in a civil transport is invariably the result of a previous advance in military aviation. We know that a very definite pattern of development exists between military and civil aviation performance and that a measurable period of time is required from the moment a new engine, a new aircraft concept or a new development first appears until it goes into military use





and eventually into civil use. In the early days, this maturing process took about thirteen years, but today, because of the increasing complexity of aircraft and engines, it takes about twenty years and is increasing all the time.

Hence, we can make certain predictions about performance and the clear-cut implication is that this is what we can expect in Canada.

We feel pretty sure that a manned, jet-powered fighter interceptor will be flying at sixteen hundred miles per hour well within ten years and probably within five years. This reflects speeds of this order recently attained by rocket-powered research aircraft.

Passenger airliners will probably be travelling at between five hundred and fifty and six hundred miles an hour within a few years, also reflecting speeds attained earlier by military aircraft. By 1970, they should be travelling at nine hundred miles an hour and by 1980 or 1985 at about sixteen hundred miles an hour.

As for power, we can be sure that, on the strength of present developments, within five years a jet engine will be in military service which will produce from twenty thousand to thirty thousand pounds of thrust or the equivalent at the speed of sound of



forty thousand to sixty thousand horse power. Jets in service today are developing up to ten thousand pounds of thrust or the equivalent of twenty thousand horse power which gives you some idea of the tremendous advances being made in propulsion units.

And of course, in the same way that jets have replaced piston engines, ramjets and rockets will replace jets, at least in certain areas in the military field. I am thinking particularly of unmanned fighters and bombers travelling at speeds and heights unknown today and unattainable by air-breathing engines such as jets.

Another trend which we must take into account is the use of atomic power. This is probably not far off in military aircraft if adequate safety measures can be devised. Eventually, it might be used in commercial aircraft but only in the largest types because of the tremendous weight of material needed at present for shielding.

In the commercial field, air transportation is making steady gains from other forms of transportation. Air travel transportation costs are going down while other transportation costs are going up. When these cost lines cross, as seems likely at the moment, a revolution in favour of air transportation will probably occur.





In the light of these world trends, military and commercial, our brief then considers trends in Canada. While aviation progress in Canada will be influenced by our specific national requirements in both the military and civil fields, the lines of development will follow closely the pattern of world trends. Hence, to maintain an effective air force we will have to keep our defences equal to any demand. The world trends I have referred to are the sign posts indicating the kind of equipment we will have to provide.

In the commercial field, we will need airliners of the most advanced types, if we are to maintain our position as a major trading nation, and continue the development of our natural resources and the opening up of the North...and to take advantage of world trends toward the increasing use of air transportation. It is in the North that our natural resources lie and here the aeroplane is unchallenged. Its speed, lower capital outlays in getting service started and its ability to reach otherwise inaccessible areas has already established the aeroplane as a prime factor in the opening up of the northland. In the future, I believe aviation will play as important a role in the north as the railroads did in opening up the West.



The next point bears directly on the subject under discussion - the role of the aircraft industry and its impact on our economy. This involves a number of factors. For example, should our military and civil requirements be produced in Canada and should they be of original Canadian design. If so, are we technically capable...What about costs...What are the economic factors and what about our national policy...

First, it should be stated that since the end of World War II, it has been government policy to fill most of our military aircraft requirements from within Canada, either from original Canadian design or through licensing of a foreign design. This policy had eliminated our dependency on others which placed us in jeopardy more than once in the past.

I personally believe, and I think there is plenty of evidence to support me, that these essential military requirements can best be met with products designed and developed right here in Canada. Aside from any economic consideration, an air force must be free to choose its own weapons. Hence, it must have an industry available that is technically competent to design and develop and produce whatever is required.

The alternatives are to buy directly from





another country or to build in Canada to foreign designs. In the first case, in time of war or emergency, experience has shown it is virtually impossible to buy first-line aircraft or engines. Disruption of transportation through enemy action is another important consideration. In the last war, we had airframes sitting on the ground without engines to power them.

In building under license, there is usually a time lag of some years between an original design and the moment when it can be produced in quantity by a licensing country. Developments made during these years would therefore not be incorporated in the aircraft. However, this factor can be diminished if the licensing country itself is capable of improving the original product. A good example of this is the F-86 Sabre day fighter. This is built by Canadair under license from an American design, and now powered by the Canadian Orenda engine which makes the Canadian-built aircraft superior to those produced by the original manufacturer.

Then, of course, there are times when an air force cannot find the type it needs to build under license. This was the case in the middle forties which led to design of the Avro CF-100 all-weather interceptor and the Orenda jet engine which powers



CF-100 as well as the F-86 Sabre.

We now come to the question - are we technically capable? Without hesitation, I would say we are and I base this statement largely on the experience of our own companies within the A. V. Roe Canada group, and on the success of the CF-100, the Orenda and the Jetliner four-jet transport.

In the important matter of speed in design and development, our performance on the CF-100 and the Orenda compared well with new developments at about the same time by Britain and American companies.

As for the cost of design and development, they were generally below American companies, although slightly higher than Britain.

While I am still talking about design costs, it is important I believe, to look at production costs as well. The CF-100 and the Orenda which are as good if not better than anything available, have been delivered at prices below what we would have had to pay elsewhere. This unit saving, multiplied by over four hundred CF-100's produced to date and more than three thousand Orendas represents a saving of many millions of dollars to the Canadian taxpayer.

As for the future, the engineering and research facilities which now exist are keeping us abreast and possibly ahead of others. Avro aircraft,



for example, is developing a new supersonic interceptor, the CF-105 and Orenda Engines has a new engine which opens up new vistas of power for Canada and the world.

Now may I turn to the impact on our economy today and tomorrow. This has several aspects...the effect on taxation...the broadening of our industrial base...the technological effect...opportunities for Canadian engineers...and employment generally.

There is no denying the fact that the cost of design and development is very large indeed. But the money is spent in Canada on salaries and wages and raw materials and much of it is recovered in the form of income and corporation taxes. If aircraft and engines are bought outside Canada, the money is a direct drain on the Canadian taxpayer. In building under license, the license cost itself is high and a royalty must be paid on every unit produced. This money goes out of the country to help support foreign industrial development, rather than our own.

When it comes to the effect on an aircraft industry on a nation's technological progress and industrial growth, the impact is almost imponderable... We have established engineering and research facilities that never existed before. This has added measurably to the technological and industrial stature of our country. Furthermore, it has provided challenging





opportunities for engineers which, to a large extent, have helped stem the flow of our best skills and talent to other countries. In fact, in some cases, the flow has been reversed, which is recognition indeed of the advanced character of the projects we have underway.

Other industries benefit in varying degrees from aeronautical advances in electronics, power plant performances, development of materials and metals, production processes and methods, and in educational standards of engineering.

I think it is fair to say that Canadian aviation has made great strides in the past ten years. The aircraft industry has expanded and its base has been broadened and reinforced through the establishment of its own research and design facilities and the acquisition of new industrial techniques and capability. In the jet engine field, a whole new industry has been born. With it came new plants, expansion of old ones, new techniques and know-how and new engineering facilities. A measurement of our progress is that when we started to build the Orenda, ninety-five per cent of the components in it came from outside Canada. Today, the situation is reversed; ninety-five per cent now come from inside Canada. In varying degrees the same trend occurred



in airframe manufacturing.

The result of this Canadianization has been a significant increase in total employment and in the value of production. In 1950, for example, the aircraft industry stood fortieth in manufacturing in terms of the factory value of products. Today, it is in ninth place. This, with today's levels in employment and salaries and wages, puts the aircraft industry in the same economic class as automobile manufacturing, iron and steel products, railway rolling stock, electrical apparatus, etc. Last year, the aircraft industry's products were valued at approximately four hundred million; it directly employed thirty-five thousand and paid out about one hundred and forty millions in salaries and wages.

And now we come to the important matter of national policy. This industrial and economic growth, and all the aeronautical achievements of the past ten years are the direct result of private initiative and investment and the adoption of a progressive national policy which supports the concept of a self-sufficient aircraft industry capable of undertaking original design and development.

This - the attainment of a self-sufficient industry and the ability to do our own design and development - represents two big steps along the way





toward a full and complete air policy. It means there is recognition that the aircraft industry is the industrial arm of our air forces...and that defence... directly or indirectly...in peace or war, is everybody's business.

It means that it is recognized that by its very nature neither military aircraft nor large commercial transport design and development can normally be financed by private enterprise. The costs involved are very high and there is little possibility of any financial return.

Then as far as military aircraft are concerned, there is the risk involved in the uncertainty of production quantities because of inevitable changes in technological and possibly defence requirements as well. The result is that this sort of investment without government participation has little or no attraction for private capital. However, some firms have carried the early stages of a development as a private venture to demonstrate the potential of the concept. In Canada, this has been done by a member of our group recently but in the final analysis the main responsibility must revert back to our national policy.

As I have said, our present air policy has brought us two big steps along the way. The third and



most important step is, I believe, a long term summation of our future requirements and the adoption of a long-range program to meet those requirements. This would give the aircraft industry the necessary degree of stability to meet whatever demand is made upon it.

And when considering this whole matter, this additional point should be kept in mind. At present, most of our commercial aircraft are bought outside Canada. Up to now this has perhaps been economically sound because we have not needed great numbers of planes. But as we grow as a nation, this is going to change. It seems to me that since we already have a technically capable aircraft industry and since a substantial military program is underway, serious consideration should be given to a complementary commercial aircraft building program. This could be an important part of this third step - this long-range program I am talking about. It would be most satisfying to be able to apply the results of research already bought and paid for as part of our defence program to such peaceful and useful ends.

And in conclusion - in the next twenty-five years, the industry's importance in the economy of our country and throughout the world should increase at a far greater rate. Unless there is an unexpected change in the international climate, there will be a



continuing defence requirement. Then there is the tremendous potential for expansion through the inevitable invasion by air transportation into areas now serviced by other forms of transportation.

Because of these two factors alone, aviation could well become the foremost industry in the world in the period under review. In Canada the probability is heightened by the additional factors of geography, our increasing population and the vital role of the aeroplane in the development of our vast natural resources.

The sole governing factor in the attainment of this potential economic stature is national policy. Only through a long-term program can we maintain an aircraft industry capable first of all, of meeting our defence requirements and second, able to provide, on a competitive basis, commercial aircraft for Canada itself and for export and by so doing contribute to the fulfilment of the rich promise of Canada's future greatness as an industrial nation.

THE CHAIRMAN :      Thank you Mr. Gordon.

You have put a lot of thought into this submission; it seemed to me after reading it, that the key to the various proposals on a National Policy for the aircraft industry, seemed to narrow down to your suggestion





that a long term plan should be worked out and, secondly, what the annual price tag was going to be. Or, to put it in another way, what does the industry cost now and what is it likely to cost; what do we get for the expenditures and also, because there is a shortage of most things, with some rather notable exceptions in this expanding economy, the question is, could we get better value for the money and the manpower on the scale they are now being used in this industry. In the brief which Mr. Notman presented to us in Montreal, he mentioned that - in talking about some commercial transport plane I think it was -- fifty planes of this type would cost a million dollars apiece, but that if the number could be increased to three hundred planes, then he said the unit-cost, of them would come down to four hundred and fifty thousand dollars apiece, at which level they would be competitive with the United States. Now, what are the prospects of the Canadian market, which, I suppose, if other countries develop their own aircraft industry, the Canadian market certainly comes first in your thinking, although you would like to get exports ?

MR. CRAWFORD GORDON : You are discussing commercial aircraft now ?

THE CHAIRMAN : Well, commercial - yes, I suppose so.



MR. CRAWFORD GORDON : There is a very vast difference between the two, but you might well ask. In this brief I have made the statement that we produce military aircraft cheaper than the Americans -- not the engines --

THE CHAIRMAN : Yes, I expect you had substantial quantities as well as other considerations ?

MR. CRAWFORD GORDON : No - not necessarily - because, in military aircraft, all governments pay for the cost of the tooling - it is not a factor. We don't have to amortize our tooling so it doesn't enter into your cost of development. The government takes the right to those costs so that you are really discussing, in military aircraft, labour - material - overhead and deficiencies.

THE CHAIRMAN : But, in leaving out these very important elements of costs, you produce cheaper than the United States or the United Kingdom but - from the government standpoint, they can't just limit it in consideration, I suppose, to the cost of production. They have got to take into account also tooling and equipment ?

MR. CRAWFORD GORDON: All I am trying to do now is differentiate between the commercial and the military aircraft. On commercial





aircraft you have to cover the tooling and design and so on and you must amortize them in your cost and the military aircraft, in cost of production, is lower than the United States - I am trying to define civil and military aircraft here - which I believe is what Mr. Notman was referring to --

THE CHAIRMAN ; Just the same, I suppose that even in taking military aircraft of a comparatively similar kind and size - our market or our requirement, is at a disadvantage, is it not ?

MR. CRAWFORD GORDON : Not always necessarily - if we have a better design, we have a slightly lower labour cost, we have equal or lower material cost, because in aircraft and aircraft products, we have all the necessary materials here - and the Americans or British have no monopoly on management or efficiency. We have been able to demonstrate - at least in production - we have found where we have lesser quantities even, we can nevertheless beat their costs.

THE CHAIRMAN : Well if aircraft become progressively larger or more complicated, or more costly, do you expect that you will still be able to meet United States and United Kingdom costs ?

MR. CRAWFORD GORDON : Yes sir.



THE CHAIRMAN : On another question about which we hear a lot -- the problem of engineers -- do you have trouble in holding your engineers ?

MR. CRAWFORD GORDON : We certainly do. We lost forty last week to a company in California at exactly one hundred per cent over the wage rate we are paying here.

THE CHAIRMAN : Better climate, too, they say.

MR. CRAWFORD GORDON : Better climate, yes. But there is a world shortage of them - and we are not producing them fast enough - we are trying our best to train them, we have scholarships, at the universities to try and attract them.

THE CHAIRMAN ; How do you keep them if someone comes along and offers them a hundred per cent increase ?

MR. CRAWFORD GORDON : You either have to be competitive with that rate or you have to let them go, which we have been doing.

THE CHAIRMAN : Have you yet gone into the production of missiles, or pilotless aircraft?

MR. CRAWFORD GORDON: No.

THE CHAIRMAN : Will you be able to when the time comes ?

MR. CRAWFORD GORDON : Yes, yes, there is no problem in that regard.



MR. GRAUER : You talk about the possibility of export in your brief, once or twice, with reference to commercial aircraft --

MR. CRAWFORD GORDON : Commercial or military, really.

MR. GRAUER : Yes, I was thinking of commercial aircraft, really; do you believe that Canada could develop any large scale export ? It all depends on the type of design, I suppose ?

MR. CRAWFORD GORDON : It depends on the stocks and the equipment Mr. Grauer. But we had orders for forty jet liners before Korea - to go to the United States. And I believe that if the forty had gone into service there, the forty would have become at least a hundred.

MR. GRAUER : Now, in the aircraft field, is there a tendency to purchase the plane that is the most efficient for the purpose -- or does one encounter this protective tariff complex that there seems to be in some other fields ?

MR. CRAWFORD GORDON ; Well there is a tariff I believe -- I am not sure, but I believe the tariff in the United States is fifteen per cent on aircraft and of course, in the United States, the Government there have taken on this policy I spoke of -- they do their best to have a transport aircraft,





whether it starts off as a military aircraft or not - your commercials usually start off as military aircraft - now the old D. C. Three, started off as a military aircraft and now they have got it into the commercial aircraft. They try to lay down their military requirements so that they can be planned into civil air liner use.

MR. GRAUER : But if there were this growth in the civil aircraft in Canada, would it be a selective growth, or would you try to "cover the waterfront" ?

MR. CRAWFORD GORDON : No, I don't think that you could. I am talking really of twenty five years ahead -- I am not talking of tomorrow, but possible planning now, that is all, for what might happen in twenty five years.

MR. GRAUER : We have heard several times of the place, or the greater place, that aircraft can take in the Northern development. Assuming this development of commercial aircraft will occur, whether in Canada or not, do you visualize that the use of commercial airplanes will grow to the extent that the building of railroads or even of roads into some of the more isolated parts of the country, will be unnecessary. Could commercial aircraft get their deposits down at a sufficiently



low cost?

MR. CRAWFORD GORDON : I believe very strongly that within twenty five years commercial aircraft as now known, will be obsolete. They will be getting much closer to vertical take-off - there is a lot of money being spent on that in the free world and there is evidence of some quite startling results coming out.

MR. GRAUER : Well I was thinking more particularly about development, particularly in the northland - and of course, it is quite vast in area and quite far away from any railroads or roads that we presently have. The chief potential seems to be minerals and mining and of course you need fairly heavy equipment and material supplies - of a fairly larger order. Do you visualize the development of the commercial aircraft going to a point - within the next twenty five years - where that could be done by air at a reasonable cost?

MR. CRAWFORD GORDON : No - I think they would complement each other. I think, however, that there are cases where railroads will never be taken over by air, but I think that large, near-vertical take-off planes - transport planes - will develop but not necessarily for the purpose of moving ore and bulky materials like that, supplies and cargo, although they will greatly complement the opening





up of the Northland.

MR. GRAUER : I think it would make some difference to a person who had contemplated building a railroad, if he thought that commercial aircraft were going to cut into a good portion of the business ?

MR. CRAWFORD GORDON : Well we can see in the past what it has done to passenger traffic in the railroads. I don't say it will do it to freight at all, but it certainly can take a slice of that business. It is bound to.

MR. GUSHUE : That reference to vertical or near-vertical take-off, I assume would apply to take-off and descent ?

MR. CRAWFORD GORDON : Take - off and descent.

THE CHAIRMAN : The fact of the matter is, we are all nervous of the aircraft business and we are assuming it is so tricky that it is probably beyond us. So we will have to just accept every statement you have made in the brief.

MR. GRAUER : You have referred to the use of atomic power for commercial purposes, and the weight of the unit will have to be very much protected. In the case of a crash - which I know doesn't happen very often - was part of the weight that you speak of something that would still



contain fissionable material - even under conditions of a crash ?

MR. CRAWFORD GORDON : I believe that is a pious hope Mr. Grauer -- but I don't know whether it is feasible or not.

MR. GRAUER : That would severely limit the use of aircraft for this purpose.

THE CHAIRMAN : To go back to something I said earlier, in the total defence bill in Canada, what percentage would be related to aircraft ?

MR. CRAWFORD GORDON : You mean in this year or just --

THE CHAIRMAN : Would it be five hundred millions, or even two billion, or one point eight million or --

MR. CRAWFORD GORDON : You are talking about aircraft supplies - not personnel - just straight equipment ?

THE CHAIRMAN : Aircraft supplies - including any expenditures on tooling or development for the future ?

MR. CRAWFORD GORDON : That's right - I am sorry, I haven't that figure with me, but just guessing, if you won't hold me to it --- I can give you a figure ?

THE CHAIRMAN : Oh no - no --



MR. CRAWFORD GORDON : I think it is around three hundred millions.

THE CHAIRMAN : I thought it would be more than that.

MR. CRAWFORD GORDON : No, no - costs are progressively coming down - very steeply, actually.

THE CHAIRMAN ; Well, of course, what you have done out there - I suppose I should not distinguish between the air frame and the engine - but it does seem that both of them are remarkable developments for a country of this size, in the time that it has been accomplished. Do you expect to have the same success in the car building business ?

MR. CRAWFORD GORDON : I hope so. If anything else comes up on which you would like to have information, I will be glad to send it to you.

THE CHAIRMAN : I should think that we might be glad to accept your offer. Thank you very much Mr. Gordon - your exhibit will be marked No. 177 for the record.

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Recess  
After Recess  
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THE CHAIRMAN : The next submission is on behalf of the Canadian Machine Tools Builders Association and will be No. 178, so Mr. Chambers, I think if you will perhaps be good enough to introduce your colleagues for the record ?

MR. CHAMBERS : On my right sir is Mr. Harold Evans, President of the Canadian Machine Tools Builders Association, and on his right is Mr. Clarence Stadler, Secretary, and on my left is Mr. E.R. Davidson, Vice President of the Association. I happen to be the Chairman of the Committee charged with the responsibility of preparing the brief.

THE CHAIRMAN : Thank you - then if you would like to proceed Mr. Chambers ?

MR. CHAMBERS : First I would like to express the appreciation of the Machine Tools Builders for the opportunity to appear here before the commission - realizing from the newspapers and elsewhere, how busy you have been with verbiage and what not, and we do appreciate very much this opportunity.

First of all I would like to explain to you that we are representing an association known as the Canadian Machine Tools Builders Association, who are primarily manufacturers of machine tools, and to explain to you what a machine tool is. We are speaking now of machine tools, known as



lathes, milling machines, boring machines, drilling, grinding, forming, punching, pressing and welding machines - machines of that type, and we have, or at least most of the members have, a secondary role, as importers and dealers in machine tools.

The machine tools manufacturing industry has been in Canada since Eighteen sixty one when the first plant was opened, and it has expanded quite substantially - both in World War One, and again in World War Two, during which time under the expanded requirements of the country, the Canadian industry provided some twenty seven per cent of the nation's needs. Throughout the past fifty years of our history, Canada has been dependent upon imports from various countries, of somewhere between seventy five and eighty per cent of the machine tool requirements of the country, the principal source other than the domestic manufacturer, has been the United States, and with lesser quantities coming from the United Kingdom, and relatively small quantities until recently, coming from Europe. I say until recently, because Western Germany has been increasing her exports to this country.

We have had, in the past, appreciable exports of machine tools, but in the last few years, owing to currency controls, and differentials in





wages and so on, those have diminished quite substantially. The importance of our industry is quite well stated in the brief - which I believe the commission knows, but we are a relatively small industry although the importance of our industry lies fundamentally, in the technological advances which result in anything at all being manufactured or improved by a better product - or a higher degree of productivity, - are generally preceded by the construction of a new and more efficiently designed machine tool.

In regard to the size of our industry, we reached the highest point of production, of eighteen and a half million dollars output - which is about twice the present volume, or twice the volume that would be represented by that sum nowadays, during Nineteen forty two. During Nineteen fifty four Canadian manufacturers manufactured a total of about nine million dollars worth of machine tools and, in that period, it represented somewhat less than fifteen per cent of the apparent total of Canada's requirements for that year.

Compared with the United States, with a population ten times the size of ours, their manufacturing capacity - machine-tool-wise - is some one hundred and twenty times the size of the



Canadian industry, and you might ask why that would be. It is our considered opinion that it

has been due to the tariff protection offered the industry of the United States and besides that, the United States is a very fruitful market for new machine tools. They have a rather

drastic way of getting rid of something that they consider obsolete, and replacing it with something better. The need for the industry in this country

in our opinion is self-evident, when we realize that, first, nothing can be built, nothing really can be manufactured, without machine tools, and therefore, if you wish to have a self-contained and properly balanced economy, in which you have manufacturing as well as primary production, you must have with it a machine tool industry. Secondly, the industry

has provided, and it is providing a training ground for skilled personnel and this personnel frequently pass on to occupy key positions in the manufacturing industry. Thirdly, the industry is a nucleus

of highly skilled, technical engineers and people upon whom the world is dependent, more and more, nowadays for progress. One of our members has instanced

that in Canada, with all the natural resources we have had here in the past - during the period that the Indians had the country in their possession, no use was ever made of them and the only use that can



ever be made of them will be through the efforts of the type of people represented in our industry. The wages of the people in our industry are relatively high - they are second only to those paid in the United States, approximately averaging a dollar eighty five an hour, as compared with two dollars, thirty cents in the United States. However, our European competitors pay somewhere around sixty five cents and seventy five cents an hour in the United Kingdom, and we of course, on account of the highly competitive position, find that we are denied access to the European markets, and also on account of the Foreign Exchange controls and the tariff regulations that prevail at the present time.

It should be borne in mind that although those rates paid to the people in those countries are substantially less than ours, they are no less skilled than are our people - so that it is a matter, primarily, of straight competition, one person against another, but one receiving much less for his services than the other. Our Association feels that to some extent, the desire to market primary products abroad, has led the Canadian Government to encourage, unduly, the importation of these competitive machines and also the recent sales efforts put forward in this





country by European machine tool manufacturers, appears to have been out of all proportion to the size of the Canadian market. It is unfortunate that our market has been attacked in this way, because it is upon the domestic market that the Canadian industry depends, primarily, for its survival. One of the problems, probably the major problem, in the manufacturing of machine tools in this country is the present tariff set-up. We have a provision in our tariff regulations that requires the definition of a product to be either made or not made in Canada and that is exceedingly difficult to determine, sir, in some cases. In addition to that, in order that a manufacturer in this country can have protection under a "made in Canada" status, he must first of all be supplying at least ten per cent of the Canadian market, before his product, in any event, is considered to be made in Canada, although he may have been making it here for many years.

Now I should say this, that the Department of Customs does its best to interpret fairly the "made in Canada" status of Canadian-made equipment, but it is always subject to revision, or review of the Tariff Board. Sometimes, novel features - frequently required by only one purchaser - may cause a machine to be classified "not made in Canada", for



no purpose or reason other than some specific or novel feature on the machine. Our understanding is that this Commission is interested in where Canadian enterprise, or the Canadian economy, will go in the next twenty five years. We are of the opinion that under proper conditions, our industry in twenty five years could increase at least five times.

Having regard to the increase in the population - bringing with it increased demand for machine tools - and with that increased demand, the increased ability of our manufacturers to provide more and more of the market requirements, we can see this future. However, without these proper conditions, we are not in a position to say where we may be. We would like to suggest that it comes within the scope of the Commission's report, to study this problem - or that emphasis should be given to the necessity for a healthy machine tool industry as a factor in the future industrial development of Canada and that also, in order to provide this adequate climate, that the Government should be recommended to give consideration, in consultation with Machine Tools manufacturers, to the anticipation of requirements, priorities, and regulations in general, as applied to a programme for the machine tool industry





in the event of War. Secondly, that they give consideration to a review of the tariff protection being afforded the industry at the present time, having in mind the extreme difficulties being experienced in the administration of the "made in Canada" Status. Also to give consideration to increased depreciation provisions in the Revenue Code in order to promote rehabilitation, as a whole, of Canada's machine tool potential and place the Canadian manufacturing industry in a more favourable position in the export market and in the event of war. And fourthly, to give consideration to various means of encouragement to the vital machine tool industry, in particular to the adoption of a Buy Canadian policy, in government purchases and those of Crown companies and companies in which the Government is interested. Lastly, that we should give consideration to the adoption of measures, similar to those used in other countries, for assistance to research and development engineering in industry, with a view to securing Canadian leadership in fields of new industrial development,-- in the machine tool field. That is our submission, Mr. Chairman.

THE CHAIRMAN : Thank you very much  
- I am sure that we appreciate that yours is not a mass-producing industry, but that its nature is more of a "custom-made" variety. I can understand



that the "Made in Canada" provisions of the tariff may be particularly difficult in your case. I was interested in one of the suggestions that you made, that the depreciation provisions of the Income Tax Act could be used to stimulate and keep up-to-date the machinery and equipment of the Canadian industry to a greater extent than those provisions have been used, and I think that is the first time that suggestion has been made to us. Also your suggestion that this might be coupled with a provision that the incentives be dependent upon buying Canadian machine tools -- that is first time that suggestion has been made to us. Have you made that suggestion elsewhere ?

MR. CHAMBERS : No - we have not.

THE CHAIRMAN : Well I don't see why you shouldn't, you know --

MR. CHAMBERS: Well we have made presentations with regard to the contribution to be made competitively, but not in that specific way.

THE CHAIRMAN : We hear a lot about the difficulty of the Canadian industry to keep up-to-date because of very substantial expenditures that have to be made to operate the proper research department, and so on, but one way of doing it might be to keep their plant up-to-date.



MR. EVANS : That's right. That is very material, we think.

MR. STEWART : How many firms are classified within your industry ?

MR. CHAMBERS : In our Association there are eleven, but there are in addition to that some companies which, besides manufacturing other things, manufacture some machine tools, - one locomotive industry, for example - or company, in this country, periodically goes into the manufacture of machine tools, and I believe, is going into that field in a substantial way, but they happen not to be members of our Association.

MR. STEWART : I think you used the word "mainly" - what proportion of the output of your firms would be properly classified as machine tools ?

MR. CHAMBERS : In my own particular case our entire manufacturing facilities are devoted to machine tools, - one other member, about one third of his capacity is devoted to manufacturing pumps - another of our members I would guess, about half of his manufacturing capacity is devoted to machinery - as well as the other half being devoted to machine tools, but he builds in addition to machine tools, various mechanical equipment for the mining





industry, particularly.

MR. STEWART : Is there any class or kind of machine tools where you find that the competition is more substantial than in the others -- are imports uniform, across the board, in all those things that you produce, or are there some types of product that come in more competitively ?

MR. CHAMBERS : Well we only concern ourselves with the things we make I guess--but there are certain machine tools that are not made in this country at all.

MR. STEWART : But, of the things that you make ?

MR. CHAMBERS : It is right across the board - particularly in such things as lathes, for example, one of the big problems in our industry, - is what the Chairman has referred to as mass-production - our market is limited to Canada, whereas the European manufacturer has a world-wide market so that his productive capacity and the benefits which flow from large production, are not obtained in our instance. If we had the American market open to us, for instance, freely, our prices could be the same as the American ones, but unfortunately, the Americans realize that, and we are deprived consequently, of reaching that market in competitive numbers.



MR. STEWART : When you were exporting, were you exporting all your products, or just some ?

MR. CHAMBERS : During the war they were all products but at the present time it is mostly special products for special purposes in the machine tool field, where it is a one-off proposition, and we are as competitive on a one-off basis as the Americans.

MR. STEWART : You mentioned the fact of instability of your output which varies quite appreciably - not only because of foreign competition but also because of the inherent instability of the industry ?

MR. CHAMBERS : Yes.

MR. STEWART : Would you feel that that is a substantial factor in the cost of your product over a period of years?, What I have in mind is really, if demand were more stable for your product, or the output of the people who use your tools was more stable - would that significantly reduce your costs ?

MR. CHAMBERS : Yes - on two counts. It would give you a regular production rate and it would enable you to compute accurately the wisdom or otherwise of acquiring the latest equipment for your purpose -- in which there is some gamble, nowadays.





MR. GUSHUE : I wonder if you would be good enough to enlarge on the recommendation that you make on page eleven - "give consideration in consultation with the machine tool manufacturers, to anticipation of requirements, priorities and regulations and a general programme for the machine tool industry in the event of war". Would you explain just how that would work and what it would accomplish, generally ?

MR. CHAMBERS : Well it has been our feeling, that has been our experience really, that when an emergency arises there is a mad rush to procure anything and everything from anywhere that it can be obtained. To that extent, we feel that some guidance to our industry might be given whereby some prior warning of needs might be had. You no doubt would be familiar with the terrific conditions that we faced there, at the end of the last war, in which every conceivable piece of used machinery and machine tool equipment was acquired - good or bad - for a purpose. It seemed that we either were reluctant or for some reason or other, didn't want to commit ourselves to a programme of requirement prior to that, so that there was a tremendous building up of facilities to meet an emergency - which need not have occurred, had the curve of increased production been more gradual.



MR. GUSHUE : You think that the possibilities of this increased demand ought to be kept before the government and there should be consultation with the industry to meet it or to anticipate it ?

MR. CHAMBERS : Yes.

MR. GUSHUE : That would mean, perhaps, more space and what may be roughly equivalent to stock-piling of machine tools and so on -- would you go as far as that ?

MR. CHAMBERS : It isn't necessarily stock-piling. It is pre-arrangement - awareness of what is going to be required - for instance, the Department of National Defence, they have definite knowledge of what they are going to do in the case of an emergency and yet they don't tell us in advance. We won't know anything about it until, all of a sudden, we are faced with the necessity of providing something with no prior engineering, or even thought. Our Secretary has just commented on that.

MR. STADLER : I was just going to mention that point - we are concerned to hear that there was mention made officially in Britain recently, where they critisized this very situation we are speaking of here - recommendations had been



made prior to the last War, and no action had been taken - and it is significant, that the official history of the industry does make that point on the lack of planning and lack of acceptance.

MR. GUSHUE :        You don't know when War might break out -- it may be five or ten years or it may be fifty or even a hundred years - it can be rather vague.

MR. CHAMBERS : Yes.

THE CHAIRMAN: Have you any forecasts?

MR. GUSHUE :        No - add or multiply, as you say.

MR. DAVIDSON:        Could we draw your attention to Number Five, just before we leave - in this connection.        We have suggested that our industry would be willing to go into a programme, with assistance, in research and development in our particular size of industry.        We have this feeling however, that you must, when you are thinking of the natural resources of this country, think seriously of the people as well as all those things which come from the land or from the mines, and consequently we feel very seriously that our industry can provide a portion of the population able to do things for the future. This we are not able to do unless there is a whole, concerted effort by applied adult education, if you like, or further





research and development - not only sir, in our industry, but that we could add to the future of our country by co-operation with all industry in Canada. We have the feeling that if we had one hundred per cent of the potential of the people of Canada at work that we would have a much greater country.

THE CHAIRMAN : Thank you very much gentlemen - we are very grateful to you for your submission.

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Recess  
After Recess  
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THE CHAIRMAN : Mr. Mapledoram, and Mr. Wardrope, we are particularly pleased that it was possible for the various groups from the Lakehead to submit this brief to us; when we first heard from you about sitting at the Lakehead your invitation or suggestion came to us at the time when we were just leaving for Winnipeg, if you remember ?

MR. MAPLEDORAM : Yes, I remember that.

THE CHAIRMAN : It was impossible, as we didn't have time to change the planes. Apart from that, we did decide that we should sit only in



the capital cities in each of the provinces. Now we made exceptions in one or two cases - we sat in Vancouver as well as Victoria, because it seemed foolish to expect a lot of people from Vancouver to come across to Victoria, just to present briefs to us. We made an exception in the city of Calgary, where we sat as well as in Edmonton, because Dr. Stewart said it was very important that we should not get ourselves -involved in any local controversies in Alberta. We also sat in Montreal as well as in Quebec City. However, we are very pleased indeed that it was possible for you to present this brief to us today and if you will now present the brief to us, we will mark it No.179 for the record.

MR. MAPLEDORAM : First of all, I want to thank you for the opportunity to be here, and I do this on behalf of my colleagues in the northwestern part of the province and when we had this date set up on Wednesday, we had at that time several prominent people in the city who would not have been available to be here with us today, but knowing that you were interested in the brief - or at least you had indicated your interest in the brief -- we felt that you might want to question some of the material therein. Therefore, you would no doubt like a little longer to go through it. I think that I ought to start





this off, because my leader, the Premier of Ontario, has already submitted to you a Brief on the whole of Ontario, and you were very kind to give us this special privilege to deal with this region separately from the rest of the Province. I would like to quote my leader's words spoken at some length in the Lakehead district of Northwestern Ontario: "Northwestern Ontario, an area vast in extent, rich in actual development, but richer in potential. Yet, the impressive accomplishments of this and past generations seem practically isolated among the vast areas of our northwest. Their output would seem just a trickle compared to what all these rivers, lakes, forests and rocks can yield when extensively developed. Pooled to the resources of the neighbouring states, they add up to a potential which overshadows that of many an international power today."

Now those were Mr. Frost's own words on a visit to the Lakehead, and this brief is respectfully submitted to the Royal Commission on Canada's Economic Prospects for its consideration because, we believe Northwestern Ontario, in its immeasurable endowment of natural resources, potentially is the richest area in the world. We predict that the next twenty five years will witness its



dynamic development into one of Canada's greatest wealth-producing regions - a mighty pillar, supporting the economic progress of our nation.

Now this Brief is submitted on behalf of the Northwestern Ontario Associated Chambers of Commerce, the Northwestern Ontario Municipal Association and the Northwestern Ontario Development Association, so you see we have some meeting of the minds in that particular area - in this regard.

I would like to read the introductory remarks and I think probably you are familiar with that part of the brief, so you can ask us any questions you wish and it is hoped by so doing that you will get a completely clear picture of our presentation. It is headed "So much by so Few". Northwestern Ontario, two hundred and twelve thousand square miles in area, comprises more than half the province of Ontario. In width it extends more than four hundred and forty miles from Algoma and Cochrane to the Manitoba boundary; north and south, it stretches from Minnesota and the fresh waters of Lake Superior to the silent tundra and saline tidewaters of Hudson Bay. It is one of the richest but least known segments of Canada.

In the lap of the Precambrian Shield,



it has enormous stores of precious and base metal-ores, gold, silver, uranium, iron, nickel, copper, zinc and lithium. Much of its treasure is undeveloped; most of its mineral areas remain to be thoroughly explored.

In forest resources, it possesses some of Canada's greatest accessible stands of conifers and hardwoods, basis of its great and growing forest products industry.

Its great rivers and water resources have been harnessed to produce nearly a half million horsepower of electric energy.

In three of its big districts, there are areas of rich virgin soil, extensive enough to support thousands of farms in the vigorous, drought-free climate of the region.

Soon the St. Lawrence Seaway will bring the oceans of the world to the door of this mid-continental heartland and a natural gas pipeline will traverse its broad breast.

In its two cities, seven towns, twenty five organized townships and eleven improvement districts, live approximately two hundred thousand people. They comprise but one twenty-fifth of the population of Ontario, inhabiting more than half the province, or about one person per square mile.





They have achieved much. In the swift pace of the economic development of Canada in the post-war years, Northwestern Canada kept its place in the very vanguard. In gross production, in employment, in development of resources, it has topped the over-all gains of the province. Its industries add perhaps one quarter billion dollars annually to the national production.

Yet this region of great development, of immense potential and infinite promise, is known little and recognized less by the rest of Canada. It has been called the "barren land-bridge between east and west" ; it has been termed the "Siberia of Canada" ; it has been dismissed as "the land of bloody rocks and Christmas trees" and "the empty wilderness" that divides the industrial east from the agricultural west. Eastern politicians, rarely if ever visiting the region, have slandered it as "the sinkhole of the north"; and referred to it as a geographical liability rather than an asset in forging stronger the bonds uniting the ten provinces of the nation.

The last quarter century has exploded the fallacy of "the rock desert" and "barren barrier" separating Canada at its centre, as its renewable resources yielded annual harvests of timber wealth



and its mineralized zones poured out treasure in ever increasing volume, to build a strong fabric of primary industry.

The next quarter century is bound to witness giant strides forward as its virile and buoyant mid-western people, with vision and energy to match their immense domain, bend to the task of developing a dynamic and balanced economy.

On the rugged Precambrian face of the Northwest, on its green forests, myriad lakes and surging rivers, on its tranquil farms and busy cities, the sun of magnificent promise shines steadily.

This brief is an attempt to highlight some of these major developments, to forecast future trends and to indicate where government and other policies might accelerate the growth of this great region,

A population of half a million for Northwestern Ontario in the next twenty to twenty five years is not inconceivable, based on the brisk growth of established centres and the birth and blossoming of new communities in Thunder Bay, Rainy River, Kenora and Patricia districts, that comprise the big half of the province.

Augmenting the natural growth of the





region will be increasing population, from the greatly accelerated use and more diversified processing of the forests, discovery and development of new mineral deposits, and more land settlement to supply the expanding north-western Ontario market.

Fort William-Port Arthur and their suburban and semi-suburban areas are now approaching the one hundred thousand mark. Port Arthur's Mayor, Eunice Wishart boldly estimates that city's probably population at one hundred and twenty five thousand before the end of the next quarter century, indicating a population of at least a quarter of a million at the Lakehead by Nineteen hundred and Eighty.

Atikokan, centre of the great Steep Rock and Caland iron ore mines, leaped from a population of three hundred and Nineteen forty three, to five thousand, five hundred in Nineteen fifty five. It forecasts a community of eighteen thousand to twenty thousand before the end of twenty years.

Fort Frances, Kenora, Dryden, all centres of expanding forest products industries, have registered solid population gains and are expected to match or exceed the overall average.

A new forest industry at Sioux Lookout and revival of similar operations at Nipigon, both anticipated will give these communities sharp new



stimulus. Intensive exploration and development of new mines are bound to spark Geraldton and Beardmore.

What of the towns yet unborn ?

They will rise to dot the map of the northwest, to join the new mining centre of Manitouwadge, the forest towns of Red Rock, Terrace Bay and Marathon. Born they will be as the Canadian Shield yields its secrets and the engineer, the scientist and the plain pioneer march full stride into the nuclear age to develop this great section of Canada.

Now Gentlemen, I think that pretty well put what we have to say in a very few words. We have a very extensive brief covering most of the subjects we have talked about, and I may say that we are very willing to answer any questions you would like to ask ?

THE CHAIRMAN : Thank you Mr. Mapledoram -- I think we would like to ask you a few questions - but, as you say, most of the questions that would occur to anyone, are right here. Mr. Lussier reminded me the other day that the Lakehead area in the Northwest is similar to the north shore of the St. Lawrence - and of course, both areas have tremendous resources ---

MR. MAPLEDORAM : I should say!



THE CHAIRMAN : One resource of course, that the north shore of the St. Lawrence has, that you may not have, to the same extent, at any rate, is tremendous hydro electric power potential. Do you feel that the power potential in Northwestern Ontario will be sufficient to permit more or less unlimited growth in the area ?

MR. MAPLEDORAM : Let me put it this way -- we no longer are isolated in the Northwestern part of the province, as far as hydro electric power is concerned, and we no longer can boast of cheap power either. We are on the same basis as the rest of the province, because when the Northwest was first developed hydro connections were not made across the Province - and we could boast of cheap power from the Thunder Bay district -- we can no longer do that - we are on the same basis as any other part of Ontario - because it has been hooked up all across the Province now and we may expect development in hydro power at the same rate I believe, in the Northwestern part of the province - the same as in Southwestern Ontario.

THE CHAIRMAN : As a matter of fact, I suppose the summer pretty well proved that--when there was a shortage ?

MR. MAPLEDORAM : That's right, we had shortages in the North this year - shortage





of power, and so on, up in Kapuskasing and places like that - during the summer months.

MR. WARDROPE : May I here add a word sir ?

THE CHAIRMAN : Certainly.

MR. WARDROPE : Mr. Gordon, I would like to add this - we are almost at our limit as far as the production of Hydro power is concerned. We know that. We have this natural gas pipeline coming through though, and I believe - as Mr. Mapledoram will bear out - that all the pulp and paper mills and mines have been talked to about the usage of natural gas, and they are giving thought to probably re-designing their mills to use natural gas during the summer period when ordinary industries and householders will not be using it - and that will provide a wonderful outlet for the gas that will not be used in its entirety during the summer. That would be a source of even cheaper power than hydro electric power and a great impetus to further development of industry in that area.

MR. MAPLEDORAM : That's right, we will be getting a break as far as costs are concerned.

MR. WARDROPE : That's right.

MR. MAPLEDORAM : Against the



eastern part of the Province, because it would be expected that the cost of gas delivered at Fort William will be cheaper than the cost of gas delivered in Toronto.

THE CHAIRMAN : Yes; I was interested to see in the section of your brief on agriculture, that you think that over a period of years you may be able to develop agriculture in the Northwest - which would make that area more self-sufficient in food products.

MR. MAPLEDORAM : The big problem now sir is markets, and proximity to markets. That area in the Fort Frances - Rainy River district is probably one of the finest agricultural areas of Ontario - it is good hay growing country. At one time - twenty years ago - they had a cannery in the Lakehead area - where it is primary dairy farming. But, due to the fact that Fort Frances is isolated and they only had a train three times a week, and their sales, if any, would have to go towards Winnipeg rather than to the Lakehead, they did find it very difficult to farm - a great many of the people were disappointed and moved off the farms - but that land is still very good and is still virgin land - very wonderful agricultural land. I would say that the Fort Frances-Rainy River district is far superior to the Lakehead district as far as agriculture





is concerned. However, we do have districts in the Lakehead, around Kenora, Dryden and Slave River - which are suitable for agriculture and it should be borne in mind that crops in that part of the country have tremendous growth with a very short period in which to grow. We find that nature has a way of over-coming those things - and our hay crops are tremendous up there and they grow a lot faster than down here, primarily because of the heavy dews at night and our cool nights and our hot days. That heavy dew keeps the moisture in and it is a very good hay country.

MR. WARDROPE : You have probably noticed in the newspapers where Mr. Blair Fraser had some remarks to make about the agricultural prospects of our area - well he said they were practically nil! We were irate about that statement and in order to show him what the possibilities of agriculture are in our area, we asked him to come up and open our Canadian Lakehead Exhibition in August - which is the fourth largest agricultural exhibition in the Province of Ontario.

THE CHAIRMAN : That is Blair Fraser - the great canoeist ?

MR. MAPLEDORAM : That's right.



THE CHAIRMAN : I imagine he will have his eyes opened.

MR. WARDROPE : Well I think it was just a general statement that he made, but it didn't look very good to us because he is a wonderfully well-informed man, usually.

MR. GUSHUE : I was interested in what you had to say with regard to woods industries - I have it marked here in the brief - in which you paint a rather gloomy picture, you say that this area has the highest woods labour cost in Eastern Canada and high transportation costs and that power costs were becoming too high. That surprised me a lot to see that, I didn't think it would be so.

MR. MAPLEDORAM : Well let me say this gentlemen, that is the general thinking - that is not my thinking. Particularly it is the thinking of the people who would like to export wood, and I have to go along with the brief, as presented, though there might be things in here that I wouldn't agree with entirely, in my own thinking, as Minister of Lands and Forests for the Province of Ontario. But, I have to go along with the thinking of the people that want to get their ideas across, and there are still people in the Lakehead area who, primarily, have been in the export business for the last twenty



five years, and they feel that they have done a great deal for the Lakehead, to create pay-rolls and they have shipped a lot of wood across our own Great Lakes. I think that is what they are talking about, primarily. It is also true, too, for our domestic mills, that wood coming from the western part of the province or from the Sioux Lookout area - there is a much higher cost for wood than if it were logged and hauled by boom from say, Nipigon area.

However, I think all the companies have to meet those things - and I think when it is pointed out to them that that is the only place we are going to get wood, they will find ways and means to get it. I am not one of those who believe in the export of wood. I am very strongly against it and, as I say, a lot of people feel that we should export wood, because of the fact that about fifteen per cent of our forest of our forest areas in the Lakehead, particularly the northwest part of the province, is over-cut. There has been poor forestry - there has been some loss of timber. That timber should be replaced.

In the last two years that I have been Minister of Lands and Forests, I have seen a hundred and fifty million dollars worth of expansion go into that part of the province, in that





period.

I don't feel it will be too long before we will need every stick of that wood for our domestic mills - I predict that we will see further expansion. Actually, in the last two years - or the last year - we announced expansion in newsprint --these will be the first newsprint machines built in the Province of Ontario since 'Twenty Nine; that is something that most people don't realize. We have seen an expansion of crafts - and we will see other expansions in crafts; one can make big predictions as you will see from some of the speeches I have made.

Then there is the conifer situation in the Lakehead - or all parts of the province -- there are some areas where probably the allowable cut has been used as it should be, but we have one situation where we are only using about five per cent of the allowable cut, in one specie. So this is my thinking -- I can assure you gentlemen that anything I can do to help the situation will be done, and this year we are going to see that these companies utilize all species, and certainly, somebody will have to go in and develop the hard woods in there - I know it is coming; it is just a matter of time in getting it going. When we do that we will have our



forestry in Ontario in far better shape but we have a tremendous job to do, in Ontario, with the hard-woods.

MR. GUSHUE : Mr. Lussier could ask much more intelligent questions than I can, on this subject, but does this mean that a cord of spruce or balsam or whatever you like, would actually cost more to cut and produce in that area than in any other parts of Ontario - or other parts of the east, as it says here ?

MR. MAPLEDORAM : No - I don't think so - there are the same companies, and the same labour problems apply and the same costs apply across the province as far as cutting wood is concerned, the same Crown fees are in effect across the province so it is only the matter of a difference, maybe, in freight rates.

MR. GUSHUE : Would you get a lesser cut per person ? It says the cost per unit is higher--

MR. MAPLEDORAM : I think they are primarily freight costs.

MR. GUSHUE : Not in making the cuts but in getting it out.

MR. MAPLEDORAM : Getting it delivered to the mills, yes.

MR. LUSSIER : What cutting do you





use for the exploitation of the forests - relating, for instance, to some specific woods, are you cutting clear, or cutting by selection and so on?

MR. MAPLEDORAM : We are cutting by this system - that you have a management plan in your area and they lay out the areas for cutting of the species they are going to cut, but I have powers as Minister of Lands and Forests now, under the Crown Timber Act, to insist that they cut certain species. We have found great resistance in parts of the province, on the part of the newsprint mills, particularly, against that practice, and it would be a terrific job to police these areas -- you understand what I mean ?

MR. LUSSIER : Yes.

MR. MAPLEDORAM : It would be a terrific job to try and make them conform unless they want to go along with us - so we have to find some other method of doing it - and I am sure that we are going to find it.

MR. LUSSIER : But I am wondering this, Mr. Minister, in some places in Quebec - I should say in many places - companies insist on cutting everything in a certain type -- is it the same procedure that you are following there ?

MR. MAPLEDORAM : It is just the same.



MR. LUSSIER : No selective cutting?

MR. MAPLEDORAM : No -- the American paper mills are doing a tremendous job - they are more highly mechanized and are doing a tremendous job.

MR. LUSSIER : Do you think it is the best way to cut your forests ?

MR. MAPLEDORAM : Well I think there have to be some trees left for seeding purposes and that sort of thing -- but I think that our foresters generally have it pretty well under control.

MR. LUSSIER : I just notice that there is about eighty per cent in which re-forestation seems satisfactory - in the northern parts - and at least twenty per cent there, artificial ?

MR. MAPLEDORAM : I think it would be higher than that, sir --- I think it would be way higher --- you would have to provide for thirty five per cent artificial, at least. You would agree with that amount, would you ?

MR. LUSSIER : Yes.

MR. MAPLEDORAM : I think so - and we are going into that phase today - very thoroughly. We are going to set up for the first time in Ontario, a system of regenerating the black spruce and white spruce, for re-forestation and



also for re-forestation of the red and white pine. Under certain Acts or Bills, I have certain powers as Minister, but I believe we should be able to get co-operation. We did get a tremendous amount of co-operation from the companies generally, on our inventory which we took over the last five years, and I believe that we can get the same sort of co-operation on this matter. I do believe that the province - and the Department of Lands and Forests particularly - have some responsibility in getting these things going. For instance, let me explain my point this way; Forestry is a very difficult matter as far as re-generation is concerned; I don't think you would get two foresters to agree on a policy as to what way it should be done, this way or that way. I believe that we have to take the initiative and set up a policy, we have to call the industry together and sit down and discuss what the cost would be. I believe we should expect, and I think the industry would expect, and I believe the province would expect to spend some money in setting-up a policy and putting it into effect, and then asking the industry to go along.

MR. LUSSIER : So you mean that you would ask industry to take the expense of re-generation





- even if it was planted ?

MR. MAPLEDORAM : That's right.

Don't you feel that way sir ?

MR. LUSSIER : I do - to be frank.

MR. STEWART : What is the total population of the area, now ?

MR. MAPLEDORAM : Well I suppose Port Arthur would be about eighty thousand - Fort William and Port Arthur combined, I would say a hundred and fifty thousand, in the whole district - that is taking in the people from the White River camp through to the Manitoba boundary.

MR. STEWART : I was just wondering how conservative your estimate of population of half a million might be ?

THE CHAIRMAN : Very conservative.

MR. MAPLEDORAM : Well you have seen the completely ~~new towns~~ developing, and with the great emphasis there is on mining, you see, anything might happen,

MR. STEWART : I was trying to relate that to the statement that in gross production, in employment, and in the development of resources, Northwestern Ontario has topped the overall gains of the province ?

MR. MAPLEDORAM : Well let me say this --



I am not one of those people who believe that we are going to have a tremendous Chicago up there, or will be moving people in that way ---

MR. STEWART : No, no --

MR. MAPLEDORAM : Because of the fact that we are primarily now, at least, mining and lumbering and pulp and paper country, but we have seen them coming into the woods to start these tremendous big developments that have been going on up there - and the tremendous mining developments and so on -- but we will always be bush land. However, I think it will be better bush land - I think my friend here, Mr. Wardrope, will agree that if the forests develop it will be better bush land - more accessible; we will be doing much better in the forests twenty five years from now than we are today.

MR. STEWART : You will get more product ?

MR. MAPLEDORAM : More product - more everything.

MR. WARDROPE : As a little side-light on that question, just now there has been an announcement of this brand new development to go in forty three miles north of Nakina, sir, - which is the north line of the C. N. R. from Lake Superior,





I don't know the name of the company - it is a subsidiary of the Anaconda Copper - they have been in there two years and they have been proving a ore body of two hundred and fifty million tons of coarse iron, which meant that they have to ship a lot of rock with it, and they are trying to prove eight billion tons - it looks as if they will. They are laying out three towns up there - one of five thousand and two others of two thousand each, and are going to be asking the C. N. R. to put in a forty mile track into these properties. When these things go up every once in a while, it is very difficult to know just what might happen!

We have Manitouwadge and several places that have come along in the last two years - you know about Atikokan with its tremendous growth, and so on.

MR. STEWART : May I assure you that I wasn't questioning your estimate!

MR. WARDROPE : Oh no--but it is hard to give a proper estimate.

MR. MAPLEDORAM : Well, as a resident, and George is a resident - we have lived there all our lives, I can say that we have had a period of being static -- in other words, we stayed still for so many years, and then in the post-war period the growth has



been tremendous. It has outstripped any other part of Ontario - there is no question about that, even Toronto - not actually industrially, but in the tremendous developments like Steep Rock for instance, when Steep Rock was announced, it was just another announcement -- then we have had Caland Iron Company - mining ore right alongside Steep Rock - bringing just as big a development as Steep Rock - and we thought that Steep Rock was tremendous! Now Caland is just as big. There is an old saying that every road that has ever been built in the north has always paid for itself twice over. Well we developed a road from Marathon - in Nineteen fifty two - that has paid for itself - and now the Atikokan Highway into Fort Frances, it will probably open up the greatest tourist paradise there is, anywhere in Ontario - absolutely virgin country! I think it is true that it has one of the greatest potentialities of anywhere - lots of hunting - lots of fishing and so on, that highway will go right through to Atikokan and then to Fort Frances and it will take it over to the States - right through the loop - then there is the part that will go on Highway sixty two from the Lakehead - keeping west down to Winnipeg -- or you can go down the Trans Canada, down to the eastern part of the province



- we have several roads that are opened up in that part of the province - forest-wise - industry wise - it is just fantastic, the development! That is going to keep on happening, and I believe that it will - we have, I would say, the greatest job to be done in Ontario today - which is the selling of the people of Southern Ontario to the people of Northern Ontario - and the people of Northern Ontario to the people of Southern Ontario. When we bridge that gap we will get an assimilation of these two great parts of Ontario - and we will have a great province.

MR. GUSHUE : - You have I think, another resource which has not been mentioned and I think that two members of this commission are perhaps more interest in this point than in the others - being University Presidents -- but we are all very glad to see the reference to the College at the Lakehead, which I assume will also expand as a full University ?

MR. MAPLEDORAM ; Yes, as you know - we have been an isolated district for many years and the cost of sending your child to University is two thousand dollars or more than a person living in the southern part of the province - that will include a Junior University and in the next two or three years, let us say, the accomplishments will be very





impressive.

MR. GUSHUE : That is talking now, of a very important resource - a human resource.

MR. MAPLEDORAM: That is right - we have watched our sons and daughters go to the eastern parts of the province for their final education - and in most cases they don't come back.

MR. WARDROPE : You see a family, sir, can afford probably to send one child, but it is most difficult and it means that only one child out of that family gets education in a university - unless you happen to be in very affluent circumstances. Whereas, we see boys and girls in Toronto walking across the street to the finest university in the world.

MR. GUSHUE : Oh no -- please!

MR. WARDROPE : But may I say this, Mr. Chairman, to the people in Northwestern Ontario, this commission is one of the most important happenings in this Dominion, in its history --

MR. MAPLEDORAM : That's right.

MR. WARDROPE : Your findings are going to be so far-reaching and you are getting wonderful publicity -- I don't know who is responsible for that - but I do want to compliment you on that sir.



MR. GUSHUE : Look down to my right,  
Mr. Wardrope---

MR. WARDROPE;- But our people are really agog about what is going to happen as a result of this Royal Commission and, therefore, I may say that we went to no end of trouble to see that you got every bit of information that we could give you -- we feel like Jack Miner said "if it were not for the builders of Canada, the pull downs would soon be out of employment" and we consider that that part of the country needs builders. We try to be builders - and I would state this to the commission - that we believe that that building is the building of Canada. It is most important, and we certainly do appreciate the opportunity of coming before you - you have been very kind indeed because, when I first spoke to you I quite realized your difficulties - and what you were up against - and I know that Mr. Mapledoram and myself and the people of Northwestern Ontario feel very grateful to you for giving us the consideration that you have.

MR. GUSHUE: All right - you won't object to changing the record to "one of the finest universities" ?

MR. WARDROPE : All right sir.

THE CHAIRMAN : We are very grateful





to you - and I would like to express our appreciation to everybody who helped in the preparation of this brief. Before we adjourn, I would just like to say to the press that all the members of this commission have appreciated their patience and as, Mr. Wardrobe says, one of the important things for a commission of this kind, is that what it is doing should be conveyed to the public. I believe all of us feel that the reporting has been accurate and fair - Mr. Harold Morrison has been travelling with us so long that he is a sort of unofficial member of this commission, but he is ably supported in Toronto and we are very grateful.

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Hearing adjourned to the  
20th February 1956, in  
Montreal.

















